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# City of Scottsdale, Arizona Financial Trends

October 2004



Financial Policies  
External Economic Conditions  
Intergovernmental Constraints  
Community Needs and Resources  
Revenues  
Expenditures  
Operating Position  
Debt Structure  
Contingent Liabilities  
Condition of Capital Plant

## Table of Contents

<b>INTRODUCTION .....</b>	<b>1</b>
<b>FINANCIAL POLICIES .....</b>	<b>7</b>
<b>EXTERNAL ECONOMIC CONDITIONS .....</b>	<b>16</b>
<b>INTERGOVERNMENTAL CONSTRAINTS .....</b>	<b>19</b>
Property Tax - Expenditure Limit .....	19
State-Shared Revenues .....	20
Unfunded Mandates .....	20
Environmental Mandates .....	21
Restricted Revenues .....	21
Bonding and Bond Capacity .....	22
Reporting Requirements .....	22
<b>COMMUNITY NEEDS AND RESOURCES .....</b>	<b>23</b>
Population .....	24
Population Density .....	25
Inflation .....	26
Residential Development .....	27
Hotel/Motel Occupancy Rates .....	28
Employment Base .....	29
Business Activity .....	30
Median Age .....	31
Personal Income .....	32
Property Value .....	33
Crime Rate .....	34
<b>REVENUES .....</b>	<b>35</b>
Revenue Per Capita .....	36
Elastic Tax Revenues .....	37
Property Tax Revenues .....	38
Uncollected Property Taxes .....	39
Intergovernmental Revenue .....	40
User-Charge Coverage .....	41
Restricted Revenue .....	42
<b>EXPENDITURES .....</b>	<b>43</b>
Expenditures Per Capita .....	44
Operating Expenses - Service Areas .....	45
Employees Per Capita .....	46
Fringe Benefits .....	47

## Table of Contents

<b>OPERATING POSITION .....</b>	<b>48</b>
General Fund Balance .....	49
Enterprise Fund Earnings .....	50
Liquidity .....	51
<b>DEBT STRUCTURE .....</b>	<b>52</b>
Net Direct Debt Per Assessed Valuation .....	53
Net Direct Debt Per Capital .....	54
Overlapping Net Debt .....	55
Debt Service .....	56
Debt Margin .....	57
<b>CONTINGENT LIABILITIES .....</b>	<b>58</b>
Pension Benefit Obligation .....	59
Post Employment Benefits .....	60
Self-Insurance .....	61
<b>CONDITION OF CAPITAL PLANT .....</b>	<b>62</b>
Maintenance Effort .....	63
Capital Outlay .....	64
Depreciation .....	65

## Purpose

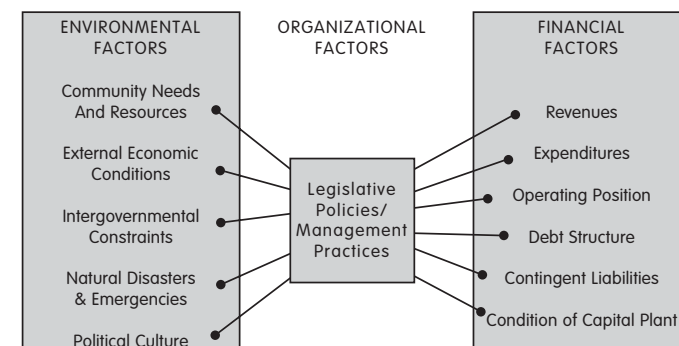
This financial trend analysis provides Scottsdale's citizens, elected officials, management, staff, and other stakeholders with information regarding existing and potential environmental, organizational, and financial problems that may impact the City's future fiscal health. As a useful management tool, it combines budgetary and financial information with economic and demographic data to create a series of local government indicators that can be used to monitor changes in the City's financial condition.

The analysis does not provide solutions to negative trends, nor does it provide a single number or index to measure the City's financial condition. When all of the financial indicators are considered together, interested stakeholders can gain a better understanding of the City's overall financial condition, i.e., similar to a credit rating agency analysis. Using this trend analysis and the framework of the financial policies adopted by City Council will enable management to strategically plan and budget, provide solutions to negative trends, and ultimately preserve the financial health of Scottsdale.

## Organization

The analysis, as designed by the International City/County Management Association (ICMA), encompasses three primary factors that affect the City's financial condition: environmental factors, organizational factors, and financial factors. These factors are divided into twelve categories that influence financial conditions. As the chart below illustrates, the factors are arranged as inputs and outputs to each other representing cause-and-effect relationships. The factors are interrelated and, taken collectively, represent an inventory of considerations when evaluating financial conditions.

FINANCIAL CONDITION FACTORS



For this reason, the trend information, whether positive, negative or neutral, should be viewed collectively. A specific trend, if analyzed on its own, may provide a misleading representation of the City's financial condition. For example, the City's revenue per capita trended downward from fiscal year 2000 to 2003. However, expenditures per capita and the community's ability to pay for services also need to be considered to determine an overall trend of the City's cost of operations exceeding future revenue streams.

The financial factors are separated into specific trend indicators. Scottsdale's financial policies, community needs and resources, overview of external economic conditions, and intergovernmental constraints are incorporated into the analysis. Other environmental and organizational factors cannot be quantified and, therefore, are not part of this analysis.

## Executive Summary

The 2004 fiscal year saw the national and state economies in the midst of a modest recovery compared to the relatively anemic performances from the past few years. Gains in productivity, retail sales, tourism, housing, and the gross domestic product during the year pointed to a continued resurgence in the economy. However, some economists labeled the year's economic rebound as a "soft" recovery due to the weak job market, the lack of new jobs, and minimal increases in workers' wages. From a long-term perspective, the nation's economy may be significantly affected by many factors, including a growing national debt and trade deficit, rising interest rates and health care costs, inflation, increased demands on Social Security as baby-boomers near retirement, a potential bust of the housing market, threat/acts of terrorism and geopolitical instability in the Middle East. These economic uncertainties underscore the importance of conservative forecasting and budgeting practices.

Based on fiscal year 2004, guarded optimism best describes the City of Scottsdale's current economic outlook. In fiscal year 2004, the City saw increased revenues over 2003 from essential components such as retail sales, tourism, and development. Based on these results, however, it is still too early to tell if these revenue levels and the economic recovery can be sustained, and therefore, prudence and fiscal conservatism are required to ensure the future wellbeing of the City's financial position.

During fiscal year 2004, the City of Scottsdale attracted more high-end residential growth and commercial development with projects such as the Stacked 40's, 3rd Avenue Lofts, and the mixed-use Scottsdale

Waterfront. The downtown area is expected to reap benefits from growth in the luxury hotel segment, including the James Hotel, remodeled Hotel Valley Ho, and the new W Hotel. Scottsdale also continued its commitment to targeting recruitment of industry segments that complement its existing business mix, while also implementing new strategies for revitalizing its downtown and southern businesses and neighborhoods.

In order for Scottsdale to retain a high quality of place, the City will have to address many critical issues on its horizon. These issues include redevelopment and in-fill projects as the City reaches build out, a shifting of the City's economic base as ample tax revenues from new growth will no longer exist, a gradual slowing in the City's population growth resulting in lower state-shared revenues, and intense competition from other communities in the region. The ongoing challenge for Scottsdale will be its ability to manage limited financial resources while addressing increasing operational and capital costs associated with growing demands for quality public services and an aging infrastructure in parts of the City. The Financial Services staff will continue to closely monitor the City's financial trends. If action is required to address unfavorable trends, staff will alert the City Manager and the City Council in a timely manner and bring forward strategic options for their consideration.

The following is a summary of the financial factor categories and the general five-year trend for each respective indicator.

**Community Needs and Resources** - These indicators reflect the community's ability to pay for services, as well as factors that impact the City's financial condition. The indicators reflect an overall steady performance for Scottsdale over the five-year span, especially in light of the economic recession that occurred during this timeframe. The City's growing population and employment base, increasing property values, and strong personal income levels all contributed to the City's financial condition and the community's ability to pay for services. As the economy began its recovery and tourism and retail sales increased, hotel/motel occupancy rates and business activity improved over earlier declining trends.

Indicator	Five-Year Trend
Population	Positive
Population Density	Positive
Inflation	Neutral
Residential Development	Neutral

## Introduction

Hotel/Motel Occupancy Rates	Neutral
Employment Base	Positive
Business Activity	Neutral
Median Age	Neutral
Personal Income	Positive
Property Value	Positive
Crime Rate	Neutral

**Revenues** - Sales tax, property tax, intergovernmental revenues, and user-fee revenue trends were mixed over the five-year trend period.

Indicator	Five-Year Trend
Revenue Per Capita	Negative
Elastic Revenue	Neutral
Property Taxes	Positive
Uncollected Property Tax	Neutral
Intergovernmental Revenues	Neutral
User Charge Coverage	Neutral
Restricted Revenue	Neutral

**Expenditures** - The expenditure indicators show expenditure levels remaining proportional to the City's population. Increases in total operating expenditures reflect increased demands for public services due to a growing population and additional maintenance requirements. Escalating health care, social security, and pension costs negatively impacted fringe benefit expenditures.

Indicator	Five-Year Trend
Expenditures Per Capita	Neutral
Operating Expenditures - Service Area	Neutral
Employees Per Capita	Neutral
Fringe Benefits	Negative

**Operating Position** - The operating position indicators reflect an overall solid financial base. The increase to the fiscal year 2004 General Fund ending balance was due to actual revenues higher than forecasted against a conservative fiscal year 2004 budget, and better-than-expected year-end department savings. Also, the Enterprise Funds show positive earnings. A large portion of these fund balances is set-aside for emergencies and enterprise infrastructure and replacement. The City's liquidity remains strong.

## Introduction

Indicator	Five-Year Trend
General Fund Balance	Neutral
Enterprise Fund Earnings	Neutral
Liquidity	Neutral

**Debt Structure** - Net direct debt per capita increases are due to voter-approved bonds issued to pay for the five-year Capital Improvement Program. However, the City's increasing assessed valuation and increasing tax base mitigates the increasing net direct debt per capita.

Indicator	Five-Year Trend
Net Direct Debt Per Assessed Valuation	Positive
Net Direct Debt Per Capita	Neutral
Overlapping Net Debt	Positive
Debt Service	Neutral
Debt Margin - 20 percent Bonds	Neutral
Debt Margin - 6 percent Bonds	Positive

**Contingent Liabilities** - The City's employee pension benefit obligations, although increasing, are fully funded. The fully funded pension status, unrestricted fund balances, and Risk Reserve are strong safeguards for the City's financial condition.

Indicator	Five-Year Trend
Pension Benefit Obligation	Negative
Post Employment Benefits	Neutral
Self-Insurance	Neutral

**Condition of Capital Plant** - The condition of capital plant indicators reflect prudent methodologies for maintenance and replacement of the City's capital assets. The neutral trends demonstrate that the City is maintaining capital investments rather than deferring maintenance costs for short-term benefits.

Indicator	Five-Year Trend
Maintenance Effort	Neutral
Capital Outlay	Neutral
Depreciation	Neutral

## Sources

This financial trend analysis is based on publications of the International City Management Association (ICMA) on the evaluation of local government financial condition. The analysis draws on the expertise of governmental finance researchers, credit rating agencies, and the City's Financial Services staff. Trend indicators are based primarily on the City's economic base along with other external factors promulgated by such organizations as the Government Finance Research Center (GFRC), the National Advisory Council on State and Local Budgeting (NACSLB), the International City/County Management Association (ICMA), the Government Finance Officers Association (GFOA), Moody's Investors Service, Fitch Ratings, and Standard and Poor's Corporation.

The analytical techniques that are part of this evaluation system are similar to the analytical approaches used by the municipal credit rating industry. For example, certain indicators are adjusted for inflation, as measured by the Consumer Price Index (CPI), to yield constant dollars, thus representing the real growth or decline of the indicators. This technique can help the City analyze and interpret key financial, economic, and demographic trends and can provide management with information needed to improve the City's overall financial position and aid in the decision-making process. In order to ensure validity and consistency of the indicators, most data are tied to data published in the City's Comprehensive Annual Financial Report (CAFR). In addition, many indicators relate directly to information required by municipal credit rating agencies. The rating agencies, bond buyers, and other interested parties consider the annually audited and published CAFR as the most reliable financial information source for the City. The City presents its CAFR in accordance with Generally Accepted Accounting Principles (GAAP) and in a consistent format as promulgated by the GFOA.

## City of Scottsdale's Comprehensive Financial Policies

The following City financial policies establish the framework for Scottsdale's overall fiscal planning and management. They set forth guidelines against which current budgetary performance can be measured and proposals for future programs can be evaluated. Scottsdale's publicly adopted financial policies by City Council reflect the City's commitment to sound financial management and fiscal integrity to the credit rating industry and prospective investors (bond buyers). The financial policies also improve the City's fiscal stability by helping City officials plan fiscal strategy with a consistent approach. Adherence to adopted financial policies promotes sound financial management, which can lead to improvement in City bond ratings and lower cost of capital.

## Operating Management Policies

1. All departments will participate in the responsibility of meeting policy goals and ensuring long-term financial health. Future service plans and program initiatives will be developed to reflect current policy directives, projected resources and future service requirements. In order to ensure compliance with policy, sunset provisions will be required on all grant program initiatives and incorporated into other service plans, as appropriate.
2. The budget process is intended to weigh all competing requests for City resources, within expected fiscal constraints. Requests for new, ongoing programs made outside the budget process will be discouraged.
3. Budget development will use strategic multi-year fiscal planning, conservative revenue forecasts, and modified zero-base expenditure analysis that requires every program to be justified annually in terms of meeting intended objectives ("effectiveness criteria") and in terms of value received for dollars allocated ("efficiency criteria"). The process will include a diligent review of programs by staff, management, citizens and City Council.
4. A City Council Budget Sub-Committee will solicit citizen input and serve in an advisory capacity in reviewing operating and capital budget recommendations from a departmental, program, and goals perspective.



## Financial Policies

5. Revenues will not be dedicated for specific purposes, unless required by law or generally accepted accounting practices (GAAP). All non-restricted revenues will be deposited in the General Fund and appropriated by the budget process.
6. Current revenues will fund current expenditures and a diversified and stable revenue system will be developed to protect programs from short-term fluctuations in any single revenue source. To ensure that Scottsdale does not become overly reliant on 'growth' revenues for operating needs, a minimum of 25% construction privilege tax revenues will be transferred annually to the Capital Improvement Program for one-time capital project use.
7. Addition of personnel will only be requested to meet program initiatives and policy directives, after service needs have been thoroughly examined and it is substantiated that additional staffing will result in increased revenue or enhanced operating efficiencies. To the extent feasible, personnel cost reductions will be achieved through attrition.
8. Enterprise (Water, Sewer, Solid Waste Management, and Airport) user fees and charges will be examined annually to ensure that they recover all direct and indirect costs of service and be approved by the City Council. Any unfavorable balances in cost recovery will be highlighted in budget documents. Rate adjustments for enterprise operations will be based on five-year financial plans.
9. All non-enterprise user fees and charges will be examined annually to determine the direct and indirect cost of service recovery rate. The acceptable recovery rate and any associated changes to user fees and charges will be approved by the City Council.
10. Development impact fees, as permitted by state law, for capital expenses attributable to new development will be reviewed annually to ensure that fees recover all direct and indirect development-related expenses and be approved by City Council. Any unfavorable balances in cost recovery will be highlighted in budget documents.
11. Capital equipment replacement will be accomplished through the use of a "rental" rate structure. The rates will be revised annually to ensure that charges to operating departments are sufficient for operation and replacement of vehicles and other capital equipment (fleet, computers, phones and copier systems). Replacement costs will be based upon equipment lifecycle financial analysis.

## Financial Policies

12. Grant funding will be considered to leverage City funds. Inconsistent and/or fluctuating grants should not be used to fund ongoing programs. Programs financed with grant monies will be budgeted in separate cost centers, and the service program will be adjusted to reflect the level of available funding. In the event of reduced grant funding, City resources will be substituted only after all program priorities and alternatives are considered during the budget process.
13. Balanced revenue and expenditure forecasts will be prepared to examine the City's ability to absorb operating costs due to changes in the economy, service demands, and capital improvements. The forecast will be updated annually, focus on a three-year horizon, but include a five-year outlook.
14. Alternative means of service delivery will be evaluated to ensure that quality services are provided to our citizens at the most competitive and economical cost. Departments, in cooperation with the City Manager, will identify all activities that could be provided by another source and review options/alternatives to current service delivery. The review of service delivery alternatives and the need for the service will be performed annually or on an "opportunity" basis.
15. Cash and Investment programs will be maintained in accordance with the City Charter and the adopted investment policy and will ensure that proper controls and safeguards are maintained. City funds will be managed in a prudent and diligent manner with an emphasis on safety of principal, liquidity, and financial return on principal, in that order.
16. The City will follow an aggressive, consistent, but sensitive to the circumstances policy of collecting revenues to the limit of our ability. Collection policy goal will be for all adjusted uncollectible accounts to be no more than .5 of 1% of the total City revenue being adjusted for bad debts annually.

### Capital Management Policies

17. A five-year Capital Improvement Plan will be developed and updated annually, including anticipated funding sources. Capital improvement projects are defined as infrastructure or equipment purchases or construction which results in a capitalized asset costing more than \$25,000 and having a useful (depreciable life) of two years or more.

## Financial Policies

18. The capital improvement plan will include, in addition to current operating maintenance expenditures, adequate funding to support repair and replacement of deteriorating infrastructure and avoidance of a significant unfunded liability.
19. Proposed capital projects will be reviewed and prioritized by a cross-departmental team regarding accurate costing (design, capital, and operating) and overall consistency with the City's goals and objectives. Financing sources will then be identified for the highest ranking projects.
20. Capital improvement lifecycle costs will be coordinated with the development of the Operating Budget. Future operating, maintenance and replacement costs associated with new capital improvements will be forecast, matched to available revenue sources and included in the Operating Budget. Capital project contract awards will include a fiscal impact statement disclosing the expected operating impact of the project and when such cost is expected to occur.
21. Dedicated two tenths of percent (.2%) privilege tax revenue for transportation improvements will be restricted to funding the planning, design, construction and acquisition costs associated with building, renovating, or enhancing capital projects for streets, highways, traffic control, transit and aviation and transportation improvement operating costs.
22. Pay-as-you-go Capital Improvement Plan financing should account for a minimum of 25 percent of all capital improvement projects for each five-year planning period. Pay-as-you-go financing is defined as all sources of revenue other than City debt issuance, i.e., fund balance contributions, developer contributions, grants, endowments, etc.
23. Pay-as-you-go contributions up to 10% or \$500,000, whichever is less, may be authorized by City Council towards any single utility undergrounding improvement district. Any unused annual budget authorization may carryforward towards a maximum \$2 million appropriation for utility undergrounding capital projects that benefit the community as a whole.

### Debt Management Policies

24. The City will seek to maintain and, if possible, improve our current bond rating in order to minimize borrowing costs and preserve access to credit.

## Financial Policies

25. An analysis showing how the new issue combined with current debt impacts the City's debt capacity and conformance with City debt policies will accompany every future bond issue proposal.
26. The City will communicate, and, where appropriate, coordinate with all jurisdictions with which we share a common tax base concerning our collective plans for future debt issues.
27. City Debt Service costs (GO, MPC, HURF, Revenue Bond, McDowell Sonoran Preservation and Contractual Debt) should not exceed 25% of the City's operating revenue in order to control fixed costs and ensure expenditure flexibility. Improvement District (ID) and Community Facility District (CFD) debt service is not included in this calculation because it is paid by district property owners and is not an obligation of the general citizenry. Separate criteria have been established regarding ID and CFD debt policies.
28. General Obligation debt, which is supported by property tax revenues and grows in proportion to the City's assessed valuation and/or property tax rate increases, will be utilized as authorized by voters. Other types of voter-approved debt (e.g., water, sewer, and HURF) may also be utilized when they are supported by dedicated revenue sources (e.g., fees and user charges).
29. General Obligation debt issuances will be managed on an annual basis to match funds to Capital Improvement Plan cashflow requirements while being sensitive to the property tax burden on citizens. Careful management of bond issuances will allow the City to not exceed \$1.50 property tax per \$100 assessed value.
30. Municipal Property Corporation and contractual debt, which is non-voter approved, will be utilized only when a dedicated revenue source (e.g., golf course revenue, privilege tax, bed tax) can be identified to pay debt service expenses. The following considerations will be made to the question of pledging of project (facility) revenues towards debt service requirements:
  - a. The project requires monies not available from other sources.
  - b. Matching fund monies are available which may be lost if not applied for in a timely manner.
  - c. Catastrophic conditions.
  - d. The project to be financed will generate net positive revenues (i.e., the additional tax revenues generated by the project will be greater than the debt service requirements). The net revenues should not simply be positive over the life of the



## Financial Policies

bonds, but must be positive each year within a reasonably short period (e.g., by the third year of debt service payments).

31. McDowell Sonoran Preservation debt service will be funded by the dedicated .2% privilege tax. The City's privilege tax to revenue bond debt service goal will be at least 1.5:1 for senior lien debt to ensure the City's ability to pay for preserve debt from this elastic revenue source.
32. Improvement District (ID) and Community Facility District \*(CFD) Bonds shall be permitted only when there is a general City benefit. ID and CFD bonds will be utilized only when it is expected that they will be issued for their full term. It is intended that ID and CFD bonds will be primarily issued for existing neighborhoods desiring improvements to their property such as roads, water lines, sewer lines, streetlights, and drainage.
  - a. Improvement District debt will be permitted only when the full cash value of the property, as reported by the Assessor's Office, to debt ratio (prior to improvements being installed) is a minimum of 3/1 prior to issuance of debt and 5/1 or higher after construction of improvements. Should the full cash value to debt ratio not meet the minimum requirements, property value may be determined by an appraisal paid for by the applicant and administered by the City. In addition, the City's cumulative improvement district debt will not exceed 5 percent of the City's secondary assessed valuation. Bonds issued to finance improvement district projects will not have maturities longer than ten years.
  - b. Community Facility District debt will be permitted only when the full cash value of the property, as reported by the Assessor's Office, to debt ratio (prior to improvements being installed) is a minimum of 3/1 prior to issuance of debt and 5/1 or higher after construction of improvements. In addition, the City's cumulative facility district debt will not exceed 5 percent of the City's secondary assessed valuation. The landowner/developer shall also contribute \$.25 in public infrastructure improvement costs of each dollar of public infrastructure improvement debt to be financed by the district.
33. Debt financing should not exceed the useful life of the infrastructure improvement with the average (weighted) bond maturities at or below ten years.

## Financial Policies

34. A ratio of current assets to current liabilities of at least 2/1 will be maintained to ensure the City's ability to pay short-term obligations.
35. Bond interest earnings will be limited to funding changes to the bond financed Capital Improvement Plan, as approved by City Council, or be applied to debt service payment on the bonds issued for construction of this plan.
36. Utility rates will be set, as a minimum, to ensure the ratio of revenue to debt service meets our bond indenture requirement of 1.2/1. The City goal will be to maintain a minimum ratio of utility revenue to debt service of 1.6/1 or greater, to ensure debt coverage in times of revenue fluctuations attributable to weather or other causes, and to ensure a balanced pay-as-you-go Capital Improvement Plan.

### Reserve Policies

37. All fund designations and reserves will be evaluated annually for long-term adequacy and use requirements in conjunction with development of the City's balanced five year financial plan.
38. General Fund Stabilization Reserve of 10 percent of annual general governmental (General/HURF funds) operating expenditures will be maintained for unforeseen emergencies or catastrophic impacts to the City. Funds in excess of 10 percent, but not to exceed \$5 million, may be used for economic investment in the community when justified by the financial return to the City.
39. Debt Service Reserve will be funded with secondary property taxes, levied by City Council, sufficient to pay the bonded indebtedness for General Obligation bond principal and interest. A debt service sinking fund will be maintained to account for these restricted revenues and debt payments, as well as any additional debt amounts deemed to be advisable and necessary for any public or municipal purposes.
40. Water and Sewer Fund Reserves will be maintained to meet three objectives: 1) ensure adequate funding for operations; 2) to ensure infrastructure repair and replacement; and, 3) to provide working capital to provide level rate change for customers.
  - a. An Operating Reserve will be funded not to exceed 90 days of budgeted system operating expenditures to provide sufficient expenditure flexibility during times of unusual weather resulting in variations in average consumption and associated operating expenses.

## Financial Policies

- b. A Replacement and Extension Reserve will be maintained, per bond indenture requirements, to meet the minimum requirement of 2% of all tangible assets of the system to ensure replacement of water and sewer infrastructure.
  - c. In addition, Working Capital will be funded based upon a multi-year financial plan to provide adequate cash for water and sewer capital improvements and to level the impact of rate increases upon our customers.
- 41. Solid Waste Management Fund Reserve will be funded not to exceed 90 days of budgeted system operating expenditures to provide contingency funding for costs associated with solid waste disposal. Costs may include site purchase, technology applications, or inter-governmental investment to maximize the value of waste disposal activities.
- 42. Aviation Fund Reserve will be funded not to exceed 90 days of budgeted system operating expenditures to provide contingency funding for costs associated with airport operations. Costs may include site purchase, technology applications, or inter-governmental investment to maximize the value of airport activities.
- 43. Self-Insurance Reserves will be maintained at a level, which, together with purchased insurance policies, will adequately indemnify the City's property, liability, and health benefit risk. A qualified actuarial firm shall be retained on an annual basis in order to recommend appropriate funding levels, which will be approved by Council.
- 44. Fleet Management Reserve will be maintained based upon lifecycle replacement plans to ensure adequate fund balance required for systematic replacement of fleet vehicles and operational contingencies. Operating departments will be charged for fleet operating costs per vehicle class and replacement costs spread over the useful life of the vehicles.
- 45. Contingency Reserves to be determined annually will be maintained to offset unanticipated revenue shortfalls and/or unexpected expenditure increases. Contingency reserves may also be used for unanticipated and/or inadequately budgeted events threatening the public health or safety. Use of contingency funds should be utilized only after all budget sources have been examined for available funds, and subject to City Council approval.

## Financial Policies

### Financial Reporting Policies

- 46. The City's accounting and financial reporting systems will be maintained in conformance with all state and federal laws, generally accepted accounting principles (GAAP) and standards of the Governmental Accounting Standards Board (GASB) and the Government Finance Officers Association (GFOA).
- 47. An annual audit will be performed by an independent public accounting firm, with an audit opinion to be included with the City's published Comprehensive Annual Financial Report (CAFR).
- 48. The City's CAFR will be submitted to the GFOA Certification of Achievement for Excellence in Financial Reporting Program. The financial report should be in conformity with GAAP, demonstrate compliance with finance related legal and contractual provisions, disclose thoroughness and detail sufficiency, and minimize ambiguities and potentials for misleading inference.
- 49. The City's CAFR will also be submitted to the National Federation of Municipal Analysts (NFMA) Awards Program and to national repositories identified by the NFMA as a continuing commitment to disclose thoroughness to enable investors to make informed decisions.
- 50. The City's Budget will be submitted to the GFOA Distinguished Budget Presentation Program. The budget should satisfy criteria as a financial and programmatic policy document, as a comprehensive financial plan, as an operations guide for all organizational units and as a communications device for all significant budgetary issues, trends and resource choices.
- 51. Financial systems will maintain internal controls to monitor revenues, expenditures, and program performance on an ongoing basis.

External economic conditions relate to the macro economy and the impact on the City. The most relevant and measurable conditions are local economic indicators. However, national and state economic trends also are important since they can indicate future impacts and changes to the local economy, such as changes in state-revenue sharing. The following is an overview of some external economic conditions.

## External Economic Conditions

### Local Economic Conditions at the Close of Fiscal Year 2004

#### Retail Sales

Scottsdale's largest revenue source is sales tax generated from a well-balanced variety of business categories including automotive, construction, food stores, hotels/motels, department stores, retail stores, restaurants, utilities and rentals. After two consecutive years of negative year-over-year sales tax growth, the City of Scottsdale sales tax receipts posted a 6.7 percent gain in fiscal year 2004, respectable, but still well below the City's double-digit growth that was common in prior decades. Major sales tax categories responsible for the revenue swing included construction up 9.0 percent, hotels and motels up 7.0 percent, miscellaneous retail stores up 10.0 percent, and rentals up 9.0 percent from the previous year. Factors contributing to a brighter economic outlook for retailers included stronger consumer confidence, declining unemployment, historically low interest rates, and tax refunds from the Fed's economic stimulus package.

#### Residential Activity

Residential property value in Scottsdale increased to \$23.7 billion in fiscal year 2004, which was up approximately 23.4 percent from \$19.2 billion in fiscal year 2003. The number of dwelling units for residential construction increased to 2,903 in fiscal year 2004, up approximately 41.9 percent from 2,046 in fiscal year 2003; respective residential construction value increased to \$426.2 million in fiscal year 2004, up approximately 6.4 percent from \$400.5 million in fiscal year 2003.

#### Commercial Activity

Commercial property value in Scottsdale decreased slightly to \$7.2 billion in fiscal year 2004, which was down approximately 1.4 percent from \$7.3 billion in fiscal year 2003. The number of commercial construction permits increased to 2,512 in fiscal year 2004, up approximately 13.4 percent from 2,215 in fiscal year 2003; respective commercial construction value increased to \$252.3 million in fiscal year 2004, up approximately 26.7 percent from \$199.2 million in fiscal year 2003.

#### Vacancy Rates

Scottsdale's citywide office vacancy rate was 15.9 percent at the end of fiscal year 2004, which was below the Valley-wide average. The weighted-average rent was 13.3 percent higher than the Valley-wide

## External Economic Conditions

average, evidence that Scottsdale remains an attractive city to conduct business. The forecasted vacancy rate for fiscal year 2005 indicates improvement, which is in line with a more positive economic outlook.

#### Job Growth

The City of Scottsdale recruited five new targeted firms and secured six expansions resulting in over 1,800 new jobs in fiscal year 2004 with an average annual salary of \$55,000. The City benefited from population growth as well as higher income levels due to higher wage jobs. Major new employers to announce moves to Scottsdale in fiscal year 2004 included TD2, Scottsdale Mitsubishi and Liberty Mutual. The City also benefited from the expansions of Nautilus Insurance, Taser International, MicroSemi and McKesson.

#### Employment

Scottsdale is creating jobs faster than it is adding to its labor force and thus remains a net importer of labor. This creates employment opportunities for Scottsdale residents and creates a significant business component to the local tax base. Scottsdale's unemployment rate of 3.6 percent for fiscal year 2004 was lower than both state and metropolitan Phoenix area and was less than the previous year's unemployment rate for the City of 4.1 percent.

#### Tourism

Tourism is one of Scottsdale's largest industries and is a significant contributor to the City's economy and financial wellbeing. Numerous resorts, country clubs and convention facilities, as well as many hotels and motels, provide nearly 10,000 guest rooms and offer recreational facilities including golf courses, tennis courts and swimming pools. The number of rooms is expected to remain stable through 2006. More than 2,500 retail shops, boutiques, and galleries are located throughout the City and a selection of almost 400 restaurants is available. These services and facilities, complemented by the mild winter climate, have made Scottsdale a popular vacation spot for tourists and winter visitors.

Hotel occupancy tax receipts increased by approximately 7.0 percent in fiscal year 2004 compared to only a 0.1 percent increase in fiscal year 2003. The current assessment for fiscal year 2005 is that tourism will continue to experience a modest recovery from its post September 11, 2001 levels, reflected by gradual increases in occupancy and room rates. The local tourism industry continues to exhibit signs of moderate recovery as leisure and business travelers return to Scottsdale; however, hotel

## External Economic Conditions

room rates remain relatively low compared to historic levels as hoteliers offer discounts to spur demand. Therefore, while the long-term outlook for local tourism remains cautiously optimistic, slower hotel-occupancy tax growth is expected relative to historic levels.

### Economic Outlook for 2005 and Beyond

The future strength of Scottsdale's economy and financial condition will hinge on many factors from both a local and macro view. The continued recovery of retail sales and tourism is essential to the City's financial wellbeing. As the City reaches build-out over the next 10 years and new development slows, Scottsdale will be faced with shifting its economic base. Ample tax revenues from development will no longer exist, which will create a heavier reliance on using new and existing revenue streams to support operations and to fund demands for service from the community. It will also be important for Scottsdale to continue its renewed focus on redevelopment and revitalization of its downtown and original sections of the City in order to spur new business activity, additional sales tax revenues, and to offer high quality of place for its residence and visitors.

From a national perspective, the current economic forecast calls for continued growth in the economy that should carry into the 2005 calendar year. The economy has been growing at a steady 3 to 5 percent rate since 2003. Meanwhile, businesses are sitting on a load of cash, waiting for the economy to show further signs of improvement and stability. Business leaders are cautiously optimistic about the future, with hopes that increased consumer spending will spur demand and, in turn, lead to new jobs as companies invest their cash in infrastructure and production. The tourism industry is forecasting continued growth in business and leisure travel, which bodes well for Scottsdale.

There are areas of concern at the national and state level, however, that could quickly reverse the positive economic trends. These areas include the sputtering job market, fluctuating consumer confidence, slow manufacturing growth, job outsourcing, a growing trade deficit, rising national debt, the war in Iraq, and geopolitical instability in the Middle East. These concerns continue to cast shadows of doubt regarding the resilience and strength of both the national and local economic recovery.

## Intergovernmental Constraints

Unfortunately, the City's economic fate is not completely under its control. Scottsdale is constrained by the imposition of other governmental units. These impositions affect both the City's ability to collect revenue and necessitate expenditures for regulatory items that do not necessarily provide a direct service to Scottsdale residents. The following is an overview of key intergovernmental constraints affecting Scottsdale's operations.

### Property Tax - Expenditure Limit

In Arizona, in response to California's Proposition 13, voters approved two measures to contain local government spending. By a Constitutional amendment the property tax was split into two distinct components, primary and secondary. The primary levy is limited as to amount and may be used for any purpose. The levy is limited to a 2.0 percent increase over the previous year's "maximum allowable levy" plus the addition of any new property not previously taxed. The secondary property tax is unlimited as to amount and can only be used to repay voter approved debt service. The City must notify the State by November 1st of the year before the tax is levied of any annexations in order for them to be included on the tax rolls. Any annexations after November 1st must wait until the following year to be included in the City's levy. In addition, cities have the right to levy property taxes to pay for the cost of involuntary tort judgments.

The expenditure limit imposed by the State uses actual payments of local revenues for fiscal year 1980 as a base and adjusts the base year revenue by increases in population and the implicit price deflator. All expenditures not specifically excluded from the limitation are included in the total revenues subject to the expenditure limitation. Some of the items excluded from the limitation are Federal grants, debt service payments, and involuntary tort judgments. The City has a permanent exclusion for all of its capital improvement expenditures and a \$12.5 million change to the fiscal year 1980 base, both of which were approved by a vote of the people at a normal election. Penalties for exceeding the expenditure limit include the loss of State-shared revenues in the fiscal year following the violation.



## Intergovernmental Constraints

### State-Shared Revenues

Scottsdale receives a share of monies collected by the State since cities and towns in Arizona are not permitted to levy an income tax. Scottsdale receives in excess of \$50 million as shared revenue from the State. Some money, such as State Shared Sales Tax and State Income Tax, are unrestricted as to use. Other revenues, such as Highway User Fuel Tax and Local Transportation Assistance Funds, are restricted to transportation purposes only.

In addition to the restrictions on use of these funds, there are also differing methods of distribution that could impact Scottsdale's revenue share. In some cases, United States Census figures are used to calculate revenue distribution. State revenues allocated based on city population are of particular concern to Scottsdale in the near-future since the City's population growth has slowed compared to other rapidly growing Phoenix metropolitan cities such as Gilbert and Peoria which stand to benefit the most. Other revenue distribution methods are based on the county in which the revenue originated.

State income tax receipts are received by the City based on income earned two years prior to distribution. The State of Arizona income tax calculations are tied to the federal tax system and, therefore, fluctuations in federal income tax levels caused by economic downturns or tax cuts can negatively impact the State's income tax revenues. Therefore, a nominal increase in State Income Tax to the City is projected in fiscal year 2005, as future receipts will be based on income earned during the tenuous economic recovery in fiscal year 2003.

### Unfunded Mandates

Increasing demands for government services and regulatory mandates at the Federal and State levels may result in the City incurring "unfunded mandates" (programs that cities are required to provide with no identified source of funding). For example, the United States Department of Justice (FBI) is currently requiring all computer systems that connect to their network to AES encrypt and apply two-factor authentication to users that are connecting over a public circuit, including wireless. This unfunded requirement must be in place for public safety by September 30, 2005 to avoid possible sanctions. Also, the voter-approved Proposition 200 from the November 2004 election may have an impact on the City's operations, including additional operating and legal costs.

## Intergovernmental Constraints

### Environmental Mandates

Environmental issues continue to impact Scottsdale's budget. Many aspects of City business are affected by environmental mandates, particularly land acquisition, water, sewer, and refuse operations. Scottsdale is required to comply with Federal and State regulations regarding treating storm water runoff, testing for drinking water chemicals, and underground storage tank leaks. The City must also comply with State surface water quality standards, industrial pretreatment requirements, and non-hazardous liquid waste processes.

For example, Scottsdale's fiscal year 2005 budget includes a 2.5 percent water rate increase to help cover approximately \$100.0 million in increased operating and capital costs to meet 'unfunded' mandated and proposed regulations from the United States Environmental Protection Agency (EPA). These unfunded federal requirements include the following: (1) An EPA Mandatory Arsenic Rule requiring utilities to decrease the maximum containment level of arsenic in drinking water from 50 parts per billion to 10 parts per billion by 2006; and (2) Pending EPA Disinfection By-Product regulation (by-products resulting from adding chlorine to water) requiring water systems in the United States to reduce Disinfection By-Products in potable water at all delivery points in the system. Scottsdale anticipates required compliance by 2006.

Other examples of unfunded environmental mandates include the 1980 Groundwater Management Act which requires the City to work toward eliminating the reliance on mined groundwater and the National Pollution Discharge Elimination System (NPDES), which requires the City to meet strict storm water quality levels. The total cost of City programs related to storm water quality was approximately \$25.0 million for fiscal year 2004.

### Restricted Revenues

Restricted revenue is legally earmarked for specific use as may be required by State law, bond covenants, or grant requirements. For example, the State of Arizona requires that gas tax revenue be used only for street maintenance or construction. As the percentage of restricted revenue increases, the City loses its flexibility to respond to changing conditions. The overdependence on restricted revenues makes the City's programs vulnerable to dictates by the funding agencies and may signal a future inability maintain current service levels, at a minimum.

## Intergovernmental Constraints

### Bonding and Bond Capacity

All General Obligation and Revenue bonds must be approved by a vote of the citizens. Additionally, the Arizona Constitution imposes limits on the principal amount of General Obligation bonds allowed to be outstanding at any point in time depending on the use of the bond proceeds. Subject to voter approval, bonds amounting to 20 percent of the assessed value of taxable property in the City can be issued for water, wastewater, artificial light, open space preserves, parks, playgrounds, and recreational facilities. The City is limited to 6 percent of the assessed value of taxable property for all other types of capital expenditures, such as transportation, public safety, and general governmental facilities. Bond capacity is the portion of the legal debt limit available for bonding.

Several different kinds of Revenue bonds are available to the City. Revenue bonds are not included in the 20 percent and 6 percent capacity calculation. These bonds generally carry a higher risk and, therefore, higher interest rates than General Obligation bonds that are supported by the full faith and credit of the City. Water & Sewer Revenue bonds are payable from the Water & Sewer System user charges. Highway User Revenue Fund bonds are payable from Highway User revenues. Both Water & Sewer Revenue bonds and Highway User Fund Revenue bonds require voter approval.

### Reporting Requirements

State law requires that the City establish at least two funds - the General Fund for recording "general" City operations and the Highway User Reserve Fund (HURF), which records the monies from highway user revenues. In addition to these requirements, additional funds are established to respond to reporting requirements for Federal grants, bond rating agencies, and regulatory accounting agencies.

## Community Needs and Resources

Community Needs and Resources encompass various economic and demographic characteristics including population, employment, personal income, property value, and business activity. These indicators describe and quantify a community's wealth and economic condition. They provide insight into the community's collective ability to generate revenue relative to the community's demand for public services such as public safety, capital improvements, and social services.

Community needs and resources are all closely interrelated and affect each other in a continuous cycle of cause and effect. In addition, changes in these characteristics tend to be cumulative. These characteristics are the most difficult to formulate into indicators because the data is not easy to gather. The indicators detailed in this section represent only those for which data is reasonably available.

In addition to analyzing these indicators, the City may also want to study more subjective issues, such as economic geography, location advantages, and land-use characteristics, as they all relate to the City's ability to generate revenue and, therefore, provide convenient, efficient public services. Also important are the City's plans and potential for future development. The diversification of the commercial and industrial tax base should be considered for its revenue-generating ability, employment-generating ability, vulnerability to economic cycles, and relationships to the larger economic region. While difficult to quantify using indicators, this information is useful in evaluating the City's financial condition.

An examination of local economic and demographic characteristics can identify the following types of situations:

- A declining tax base and correspondingly, the community's ability to pay for public services.
- A need to shift public service priorities because of demographic changes in the community.
- A need to shift public policies because of a loss in competitive advantage of the City's businesses to surrounding communities or because of a surge in inflation or other changes in regional or national economic conditions.



# Population

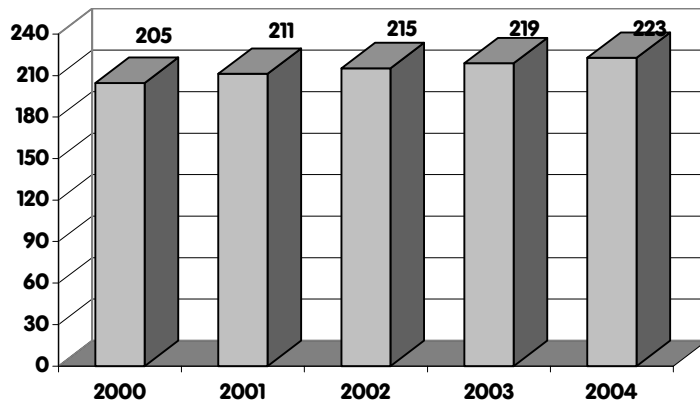
Community Needs and Resources

## Description

Changes in population can directly affect City revenues, such as property tax collections and distribution of state-shared revenues. Population level indirectly relates to such issues as employment, income, and property value.

## Analysis

Scottsdale continued to experience steady population growth from fiscal years 2000 to 2004, although the rate of growth has slowed in recent years with the decline of new residential development as the City reaches build-out. A gradually increasing population trend is considered favorable. While population increases resulted in a higher demand for public services, the community's tax base and income levels grew over the same period. Looking ahead, the City's slowing population growth relative to other Phoenix-metropolitan cities will most likely result in a reduction of intergovernmental revenue distributed to Scottsdale based on population levels.



(in thousands)	FYE 6/00	FYE 6/01	FYE 6/02	FYE 6/03	FYE 6/04
Population	205	211	215	219	223
Percent Change	4.9%	3.2%	1.9%	1.7%	1.8%

Source: CAFR Table XIX.

Calculation: (Current year less previous year)/Previous year (\*100)

# Population Density

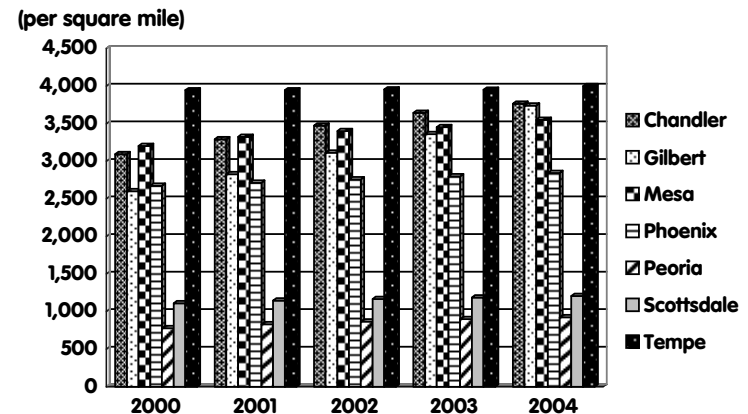
Community Needs and Resources

## Description

Population Density indicates the number of residence living in an occupied area (usually measured by square mile). Density readings can lend insight into the age of a city, growth patterns, zoning practices, new development opportunities, and the level of multi-family unit housing. High population density can also indicate whether a city may be reaching build-out, as well as service and infrastructure needs, such as additional public transit or street routes.

## Analysis

The City of Scottsdale has one of the lowest population densities per square mile compared with other major Phoenix-metropolitan cities. This can be attributed to the City's strict zoning and open space requirements, especially in the northern part, as well as preservation efforts for undeveloped land, such as the McDowell Sonoran Preserve.



(population density per square mile)	FYE 6/00	FYE 6/01	FYE 6/02	FYE 6/03	FYE 6/04
Chandler	3,096	3,294	3,475	3,644	3,766
Gilbert	2,601	2,828	3,117	3,362	3,743
Mesa	3,206	3,325	3,401	3,454	3,550
Phoenix	2,674	2,713	2,760	2,800	2,846
Peoria	780	831	867	900	925
Scottsdale	1,110	1,146	1,167	1,187	1,208
Tempe	3,946	3,946	3,958	3,953	3,999

Source: City of Scottsdale, Planning and Development Services

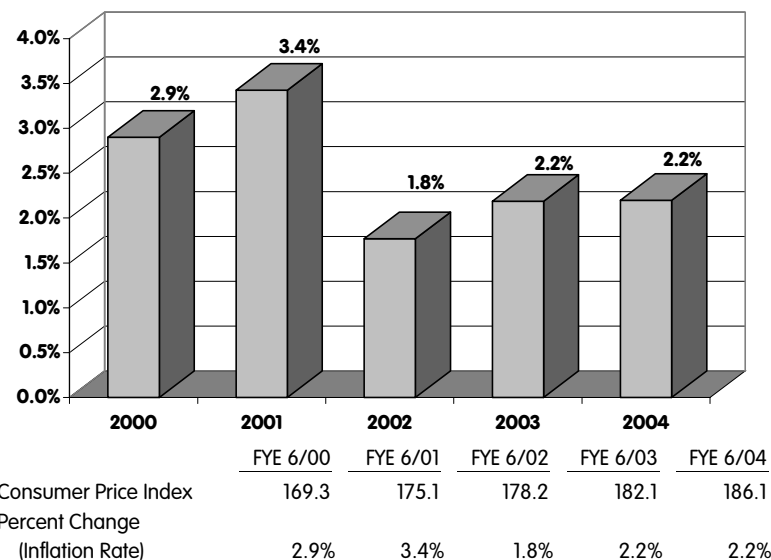
Calculation: Population/Area (SqMi)

## Description

The Consumer Price Index (CPI) is one of the most widely recognized and used measures of the average change in prices paid by consumers for goods and services over a period of time. The CPI is based on a weighted average of prices for a market basket of goods from eight different groups: food and beverages, housing, apparel, transportation, medical care, recreation, education and communication, and other goods and services (e.g., tobacco and smoking products, haircuts and other personal services). Stability in price level changes and continued low rates of inflation are generally beneficial and indicate a positive trend.

## Analysis

The rate of inflation over the measured period has been relatively low over the five-year period. After dropping to 1.8 percent in fiscal year 2002 due in part to the economic recession and weak labor markets, the inflation rate increased slightly to 2.2 percent for fiscal years 2003 and 2004 due to a gradual economic rebound.



Source: United States Bureau of Labor Statistics.

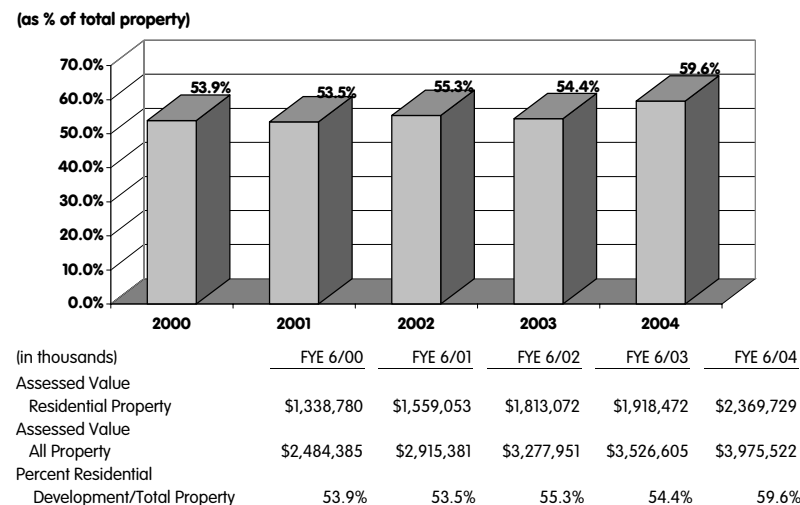
Calculation: (Current CPI less previous CPI)/Previous CPI (\*100)

## Description

Generally, the net cost of servicing residential development is higher than the net cost of servicing commercial or industrial development. Under this set of circumstances, the ideal condition would be to have sufficient commercial and industrial development to more than offset the costs of the residential development. There are exceptions to this situation. For example, a high-density residential area occupied by middle-aged, wealthy families whose children have already left home, who are heavy consumers, and who look to the government for very few services can generate more revenues than service costs.

## Analysis

The City's residential development as a percent of total property increased in fiscal year 2004 as construction rebounded due to historically low interest rates, and property values in Scottsdale continued to rise. Two points to note: Custom home construction has risen to represent 70 percent of all single-family construction and the building permit valuation of custom homes averaged greater than 40 percent more than introduction (mass market) homes. Over the next five years, custom homes will grow to represent 80 percent of all new residential construction in Scottsdale and residential reinvestment will take on an increased share of residential development.



Sources: FYE 2000-2001 State & County Abstract Class 5 & 6 (Secondary) Net Assessed Value FYE 2002-2004 CAFR Table Xb Class 3 and Class 4 Secondary Net Assessed Value

Calculation: (Assessed Value Residential/Assessed Value All Property)\*100

# Hotel/Motel Occupancy Rates

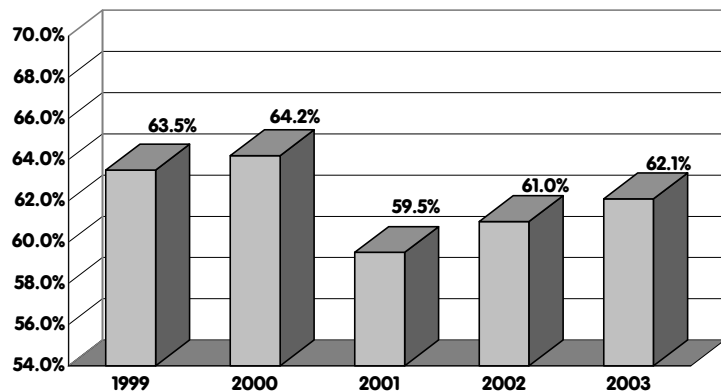
Community Needs and Resources

## Description

If the economy is sluggish or declining, the demand for hotel and motel rooms can go down and occupancy rates may decrease. Conversely, a growing economy may lead to higher demand for hotel and motel room rentals and, therefore, higher occupancy rates. This indicator can provide early warning of more serious economic problems.

## Analysis

Similar to other tourist destinations, the recession and September 11 terrorist attacks had negative impacts on both leisure and business travel to Scottsdale in calendar year 2001. Also, added competition from new hotels in neighboring cities had an impact on demand for hotel rooms in Scottsdale. Since 2001, the tourism industry has seen a slow but steady increase in leisure and business travelers, which is reflected in Scottsdale's rising occupancy rates in calendar years 2002 and 2003.



	CYE 12/99	CYE 12/00	CYE 12/01	CYE 12/02	CYE 12/03
Hotel/Motel Occupancy	63.5%	64.2%	59.5%	61.0%	62.1%
Percent Change	(6.5%)	1.1%	(7.3%)	2.5%	1.8%

Source: City of Scottsdale Office of Economic Vitality (Smith Travel Research).

Calculation: (Current year less previous year)/Previous year (\*100)

Note: Data is on a calendar year basis.

# Employment Base

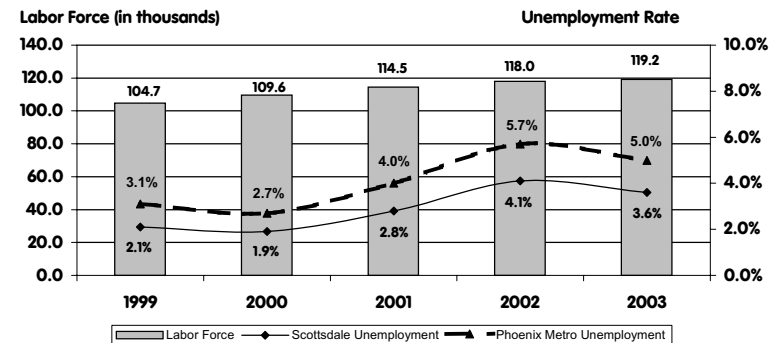
Community Needs and Resources

## Description

Changes in the rate of employment of the community's citizens are related to changes in personal income and, accordingly, are a measure of and an influence on the community's ability to support its local business sector. A decline in employment base, as measured by lack of employment, can be an early warning signal that overall economic activity and governmental revenues may be declining.

## Analysis

Scottsdale experienced a steady growth in the labor force from calendar years 1999 to 2003; the unemployment rate rose during calendar years 2001 and 2002 due to national and local recessions. During the five-year period, however, Scottsdale's unemployment rates remained lower than the surrounding cities' unemployment rates and were significantly lower than the State and national unemployment rates, results of a well-educated and highly-trained work force, and available employment from the City's business segment.



	CYE 12/99	CYE 12/00	CYE 12/01	CYE 12/02	CYE 12/03
Scottsdale Unemployment Rate	2.1%	1.9%	2.8%	4.1%	3.6%
Labor Force	104,700	109,600	114,500	118,000	119,200
Phoenix-Metro Unemployment Rate	3.1%	2.7%	4.0%	5.7%	5.0%

Source: Arizona Department of Economic Security.

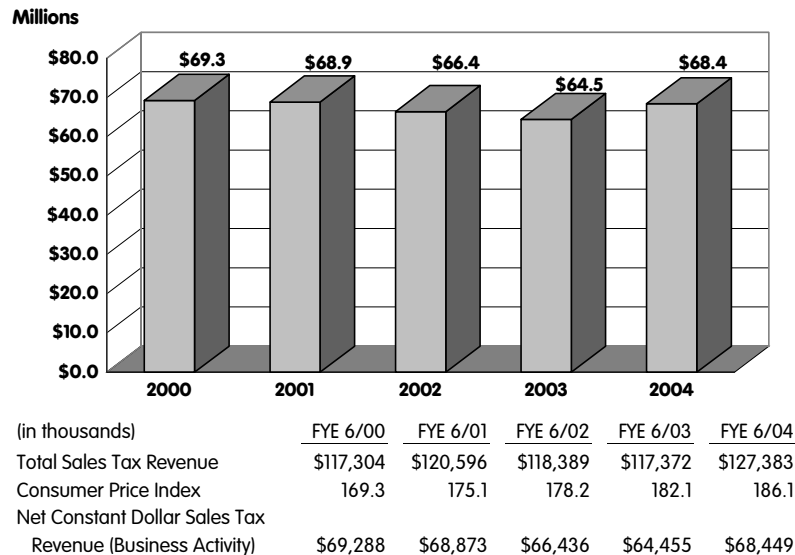
Note: Data is on calendar year basis.

## Description

The level of business activity directly affects the City's financial condition by revenue sources such as sales tax receipts and indirectly to the extent that a change in business activity affects other demographic and economic areas such as employment base, personal income, or property values. Changes in business activity also tend to be cumulative, causing a positive or negative impact on all related factors such as employment base, income, and property value.

## Analysis

From 2001 to 2003, Scottsdale experienced a decline in overall sales tax collections due to a variety of interrelated factors, including the economic recession, September 11 terrorist attacks, uneasy consumer confidence, and a decline in tourism. Fiscal year 2004 saw a rebound in sales tax revenues and corresponding business activity for the City, due in part to higher consumer confidence and resurgence of tourism.



Sources: CAFR Table VI (Privilege Tax Plus Transient Occupancy Tax), U.S. Bureau of Labor Statistics for All Urban Consumers.

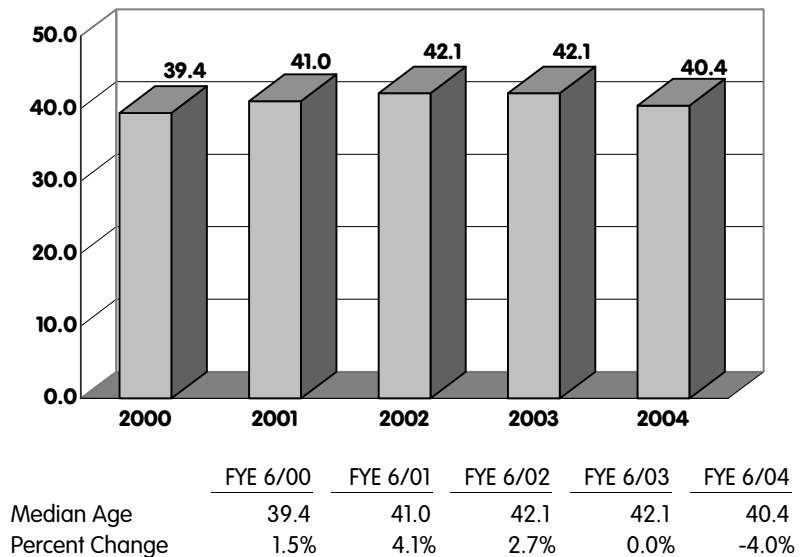
Calculation: Sales Tax/CPI (\*100)

## Description

Median age of population may affect both City revenues and expenditures. Income of seniors in the form of social security and pension payments are not subject to tax and seniors tend to spend less than younger persons. Expenditures may be affected by seniors requiring higher public service costs, such as health and welfare, and families with young children demanding services for schools, recreational, and related programs. A younger median age for a city may pose different opportunities and challenges, such as the community's ability to reinvest in businesses, neighborhoods and homes, the availability of secondary and postsecondary education, and the number of bars and clubs in its entertainment districts.

## Analysis

The median age of Scottsdale's population reversed itself in fiscal year 2004 after a slowly rising trend. The median age is within the midrange portion of the working age. Although no significant impact is expected on the City's tax revenue or expenditures for services based on this data, a continued increase in the median age of the City's population could become a concern for reasons mentioned above.



Source: FYE 2000-2001 CAFR Table XVII. FYE 2002-2004 CAFR Table XIX.

Calculation: (Current less previous year)/Previous year (\*100)

# Personal Income

Community Needs and Resources

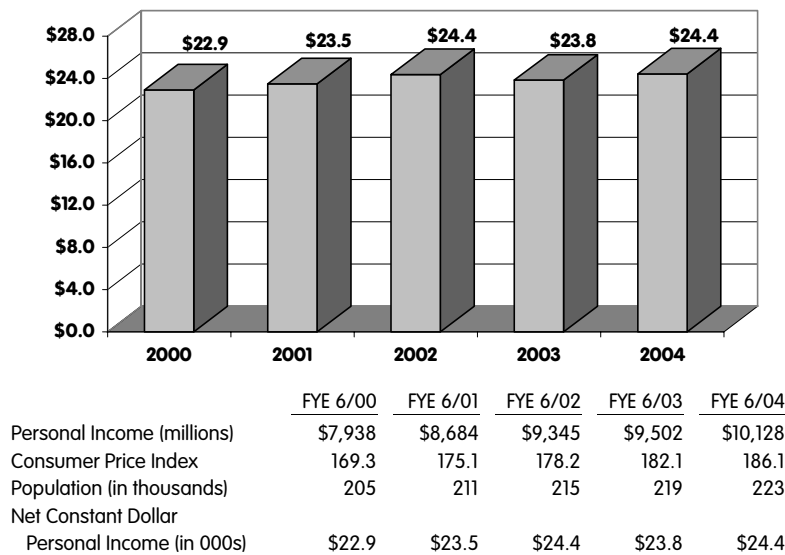
## Description

Personal income is one measure of a community's ability to pay taxes. Generally, the higher the per capita income, the more property taxes, sales taxes, income taxes, and business taxes the City can generate. If income is distributed evenly, a higher per capita income will usually mean a lower dependency on governmental services, recreation, and welfare. A decline in per capita income results in loss of consumer purchasing power and can provide advance notice that businesses, especially in the retail sector, will suffer a decline that can ripple through the rest of the City's economy. Credit rating firms use per capita income as an important measure of a City's ability to meet its financial obligations.

## Analysis

The City's per capita personal income remained strong during the five-year measurement period, with a slight decrease in fiscal year 2003 due in part to higher unemployment. The overall positive trend indicates that Scottsdale consumers have significant purchasing power and the ability to pay for public services.

Thousands (in constant dollars)



Sources: CAFR Table XIX, U.S. Bureau of Labor Statistics for All Urban Consumers.

Calculation: (Per Capita Income \* Population)/CPI/Population \*100

# Property Value

Community Needs and Resources

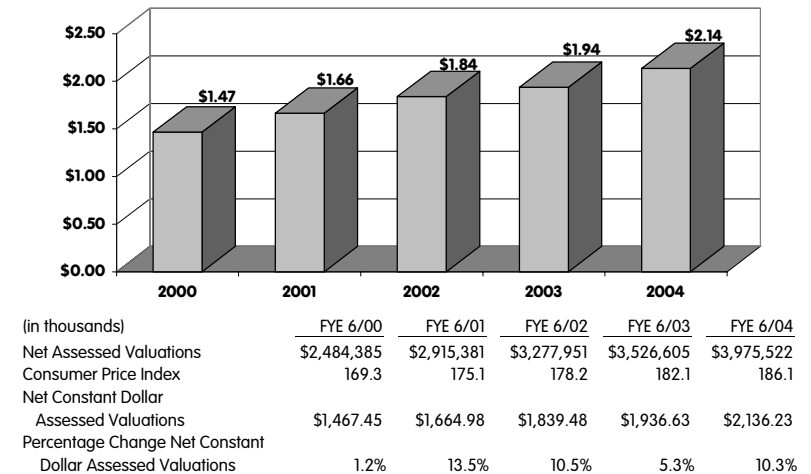
## Description

Property value is an important indicator since general property taxes (primary tax) account for approximately 9 percent of City operating revenue. With Scottsdale maintaining a relatively stable tax rate, higher aggregate property values generate greater property tax revenue. The net assessed value is used as an indicator of the City's aggregate property value on which the property tax rate is applied to compute City property tax revenue.

## Analysis

Scottsdale's assessed valuation has experienced solid, constant growth from fiscal year 2000 to 2004, which is a good indicator of the community's economic well-being and revenue base. This positive trend indicates that the community's tax base and its ability to pay for public services and capital projects are healthy.

Net Assessed Valuations (in billions of constant dollars)



Sources: FYE 2000-2001 CAFR Table XII, U.S. Bureau of Labor Statistics for All Urban Consumers. FYE 2002-2004 CAFR Table IX.

Calculation: Net Assessed Value/CPI

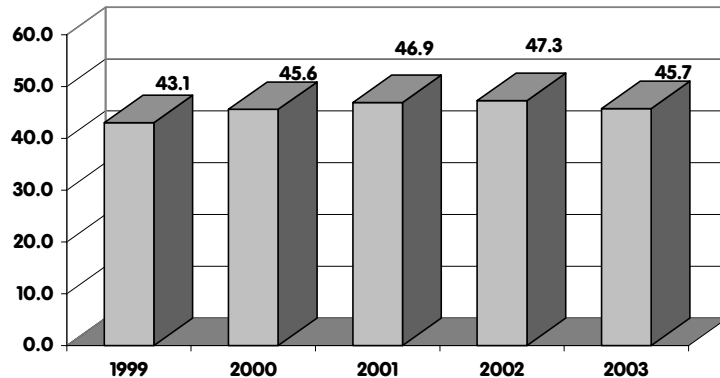
## Description

A city's crime rate can significantly impact all aspects of a community's well-being. Rising crime rates may not only ruin a city's reputation, but may also result in additional direct and indirect financial burdens to the city, such as additional police enforcement, increased costs for repair or replacement of damaged or stolen property, higher rates for property and auto insurance, and declines in tourism and overall population. In general, a city with growing population tends to experience an increase in crime activity. The goal should be to keep criminal activity in check with minimal spikes to the crime rate in order to ensure the safety of its residence and visitors, and to maintain a high quality of place and destination.

## Analysis

Scottsdale's trend for Part I Offenses has remained relatively neutral over the measured period, despite the City's growing population. Part I Offenses are eight crime categories identified by the Federal Bureau of Investigation to measure criminal activity. The categories include theft, car theft, burglary, robbery, assault, homicide, rape, and arson.

(per 1,000 population)



(per 1,000 population)	CYE 6/99	CYE 6/00	CYE 6/01	CYE 6/02	CYE 6/03
Total Part I Crimes	8,656	9,331	9,912	10,187	10,013
Population	201,050	204,680	211,280	215,320	218,940
Crime Index per 1,000	43.1	45.6	46.9	47.3	45.7

Sources: City of Scottsdale Uniform Crime Report

Calculation: Total Part I Crimes/Population (\*1000)

Note: Data is on a calendar year basis.

Revenue determines the capacity of the City to provide services. Important issues to consider with respect to revenue are economic growth, diversity, reliability, flexibility, and administration. Under ideal conditions, revenue should be growing at a rate equal to or greater than the combined effects of inflation and expenditures. Revenue should be sufficiently unrestricted to allow for necessary adjustments to changing economic and operational conditions. Revenue should be balanced between elastic and inelastic sources with respect to economic base and inflation. Some revenue sources should grow with the economic base and inflation while others should remain relatively constant. Revenue should be diversified by source so as not to be overly dependent on residential, commercial, or industrial land uses, or external funding sources such as Federal grants or discretionary State aid. User fees should be regularly reevaluated to cover the full costs of services.

Analyzing the City's revenue structure will help to identify the following types of problems:

- Deterioration in revenue base.
- Internal procedures or legislative policies that may adversely affect revenue yields.
- Overdependence on obsolete or external revenue sources.
- Changes in tax burden.
- Lack of cost controls and poor revenue estimating practices.
- Inefficiency in the collection and administration of revenue.

The indicators detailed on the following pages can be used to monitor changes in revenue.



# Revenue Per Capita

Revenues

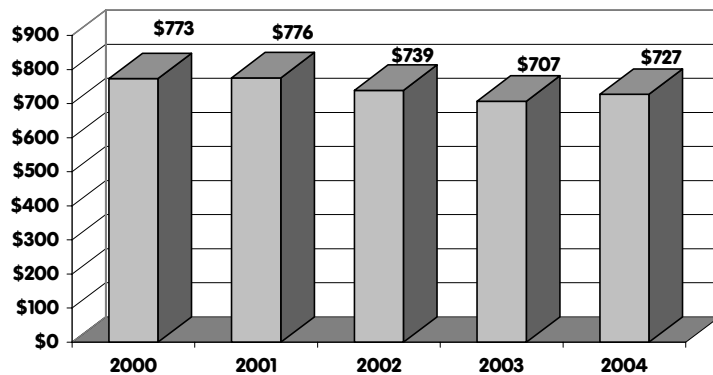
## Description

Per capita revenue illustrates revenue changes relative to population changes. As population increases, it might be expected that the need for services would increase proportionately and, therefore, the level of per capita revenue should remain at least constant in real terms. If per capita revenue is decreasing, it would be expected that the City would be unable to maintain existing service levels unless it were to find new revenue sources or financial savings, assuming cost of service correlates to population.

## Analysis

Net constant dollar revenue per capita (non-enterprise operations) decreased between fiscal years 2001 to 2003, then increased slightly in fiscal year 2004. The three-year decline and subsequent rebound can be tied to the economic recession and recovery at the national and state levels. Despite the decline in revenue and operating expenditures for these fiscal years, public service levels have either increased or remained constant, indicating more effective resource utilization and operating efficiencies.

(in constant dollars)



(in thousands)	FYE 6/00	FYE 6/01	FYE 6/02	FYE 6/03	FYE 6/04
Operating Revenue	\$267,950	\$286,981	\$283,581	\$281,909	\$301,690
Consumer Price Index	169.3	175.1	178.2	182.1	186.1
Current Population	205	211	215	219	223
Net Constant Dollar Revenue Per Capita	\$773	\$776	\$739	\$707	\$727

Sources: FYE 2000-2001 CAFR Table II, U.S. Bureau of Labor Statistics for All Urban Consumers, CAFR Table XII. FYE 2002 - 2004 CAFR Table IV.

Calculation: Operating Revenue/CPI/Population (\*100)

# Elastic Tax Revenues

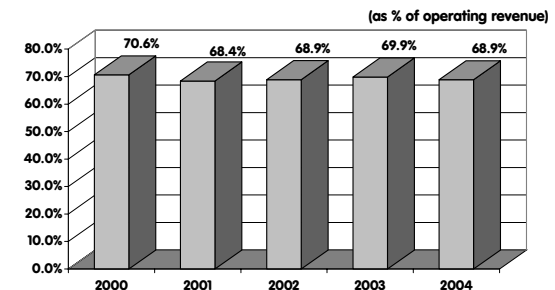
Revenues

## Description

Elastic revenues are highly responsive to changes in the economy and inflation. As the economy grows and inflation increases, elastic revenues increase in approximately the same proportion, and vice versa. For example, sales tax revenues rise and fall with increases and decreases in retail sales and corresponding economic growth or retrenchment. Inelastic revenues, such as fixed license fees or user charges, are relatively unresponsive to changes in economic conditions. The following City revenues fall within the elastic revenue category: General, Transportation, McDowell Mountain Preserve, and Public Safety sales tax, Transient Occupancy Tax (hotel/motel tax), State-Shared Sales Tax, State Revenue Sharing, Auto Lieu Tax, Highway User Revenue Fund Tax (fuel tax), State-Shared Transit Revenue, Local Transportation Assistance Fund Revenue (Lottery), and Development Permits and Fees.

## Analysis

Scottsdale's elastic tax revenue as a percent of net operating revenue has remained relatively stable from fiscal year 2000 to 2004. The City's elastic revenue collections reflected the uncertainty noted in the national, state, and local economic trends, with revenue growth slowing between 2001-2003 and increasing in 2004. Scottsdale's heavy reliance upon elastic revenue sources places a higher degree of risk upon the City's ability to maintain services during economic downturns. However, Scottsdale has a well-diversified General sales tax base of several revenue categories to help soften sharp revenue declines during economic downturns. These categories include Automotive, Construction, Food Stores, Hotel/Motel, Major Department Stores, Miscellaneous Retail, Rental, Restaurants, Utilities, and Other Taxable Activity.



(in thousands)	FYE 6/00	FYE 6/01	FYE 6/02	FYE 6/03	FYE 6/04
Elastic Tax Revenues	\$189,207	\$196,264	\$195,314	\$196,920	\$207,742
Net Operating Revenue	\$267,950	\$286,981	\$283,581	\$281,909	\$301,690
Percent Elastic Tax / Net Operating Revenue	70.6%	68.4%	68.9%	69.9%	68.9%

Sources: CAFR Table II for FYE 2000-2001. CAFR Table IV for FYE 2002-2004 and the Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds.

Calculation: Elastic Tax Revenues/Operating Revenue (\*100)

# Property Tax Revenue

Revenues

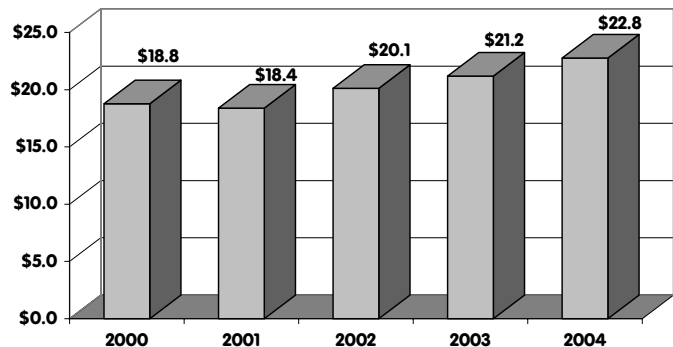
## Description

Property tax is an important revenue source to consider when evaluating financial condition. Property tax revenue represents the City's second largest revenue source next to City sales tax revenue. There are two main components of property tax. Primary property taxes are levied for maintenance and operations of the City and secondary property taxes are levied solely for debt retirement. In contrast to sales taxes, property taxes are relatively inelastic due to a State imposed 2 percent annual levy limitation on the primary property tax rate.

## Analysis

Despite consecutive year reductions in property tax rates, current year property tax revenues continue to increase, primarily due to assessed value growth and new construction added to the tax roles. Property tax revenue may also increase depending on future voter-approved debt issuances for capital improvements and related changes in Scottsdale's secondary tax rates.

Millions (in constant dollars)



(in thousands)	FYE 6/00	FYE 6/01	FYE 6/02	FYE 6/03	FYE 6/04
Property Tax Revenue	\$31,786	\$32,208	\$35,859	\$38,582	\$42,377
Consumer Price Index	169.3	175.1	178.2	182.1	186.1
City Property Tax Rate	1.5512	1.5704	1.4842	1.3768	1.1866
Constant Dollar Property Tax Revenue	\$18,775	\$18,394	\$20,123	\$21,187	\$22,771

Sources: CAFR Table VII Total Tax Collections, U.S. Bureau of Labor Statistics for All Urban Consumers, CAFR Table Ixa for FYE 2000-2001. CAFR Tables IX and Xia for FYE 2002-2004.

Calculation: Property Tax Revenue/CPI (\*100)

\*Property Tax Rates per \$100 Assessed Valuation.

# Uncollected Property Taxes

Revenues

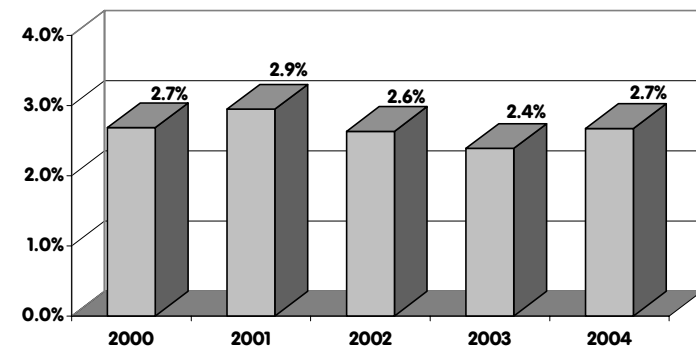
## Description

A certain percentage of property taxes are not collected because of certain property owners' inability to pay, deficiencies in collection methods, policies and procedures, or a declining economy. The credit rating agencies consider an uncollectible rate of 2 or 3 percent per year normal. If the delinquency rate rises for two consecutive years or to more than 5 to 8 percent, it may signal potential problems in the stability of the property tax base or collection methods.

## Analysis

Maricopa County collects and distributes property taxes to the City. Uncollected property taxes as a percentage of the total property tax levy have remained relatively constant over the measured period, resulting in an overall neutral trend. The uncollected percentage is within bond rating agency benchmarks and does not signal an alarming trend.

(as % of total levy)



(in thousands)	FYE 6/00	FYE 6/01	FYE 6/02	FYE 6/03	FYE 6/04
Uncollected Property Taxes	\$879	\$960	\$952	\$935	\$1,143
Net Property Tax Levy	\$32,747	\$32,581	\$36,166	\$39,159	\$42,756
Percent Uncollected Property Taxes/Tax Levy	2.7%	2.9%	2.6%	2.4%	2.7%

Source: CAFR Table VII (Table IX FYE 2002-2004).

Calculation: Uncollected Property Taxes/Net Property Tax Levy (\*100)

# Intergovernmental Revenue

Revenues

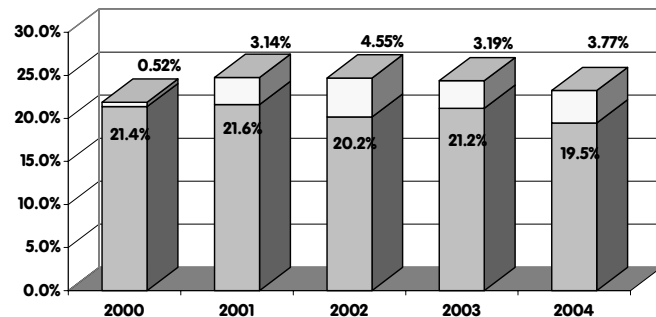
## Description

Intergovernmental revenues are received from other governmental entities. An overdependence on intergovernmental revenues can have an adverse impact on financial condition due to restrictions or stipulations that the other governmental entity attaches to the revenue. The overriding concern in analyzing intergovernmental revenues is to determine whether the City is controlling its use of the revenues or whether these revenues are controlling the City.

## Analysis

Generally, Scottsdale is not becoming overly dependent on intergovernmental revenue sources that, if reduced, could have an adverse impact on financial condition. Intergovernmental revenues (excluding grant revenue) as a percentage of operating revenues have remained relatively stable over the measurement period. Grant revenue as a percentage of operating revenue increased from fiscal year 2000 to 2002, then stabilized. The increase was primarily attributable to receipt of grants for police and transportation programs.

(as % operating revenue)



(in thousands)	FYE 6/00	FYE 6/01	FYE 6/02	FYE 6/03	FYE 6/04
Intergovernmental Revenue (Excluding Grant Revenue)	\$57,225	\$62,040	\$57,152	\$59,694	\$58,716
Grant Revenue	\$1,401	\$9,014	\$12,892	\$9,001	\$11,366
Operating Revenue	\$267,950	\$286,981	\$283,581	\$281,909	\$301,690
Percent Intergovernmental of Gross Operating Revenue	21.4%	21.6%	20.2%	21.2%	19.5%
Percent Grant Revenue of Gross Operating Revenue	0.5%	3.1%	4.5%	3.2%	3.8%

Source: FYE 2000-2001 CAFR Table II, CAFR Exhibit C-4. FYE 2002-2004 CAFR Table IV and the Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds.

Calculations: Intergovernmental Revenues/Operating Revenues (\*100), Grant Revenues/Operating Revenues (\*100).

# User-Charge Coverage

Revenues

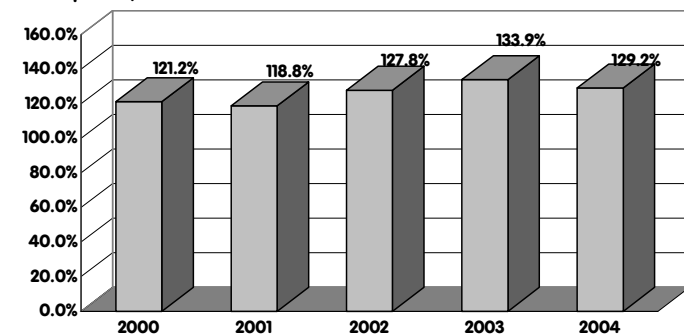
## Description

User-charge coverage refers to whether user fees and charges recover the cost of providing a service. Cost recovery from user fees and charges applies to the City's enterprise operations: water and wastewater, airport, and solid waste. User fees and charges are established in Enterprise Funds to promote efficiency by shifting payment of costs to specific users of services and to avoid general taxation. Moderate rate increases are included as part of the budget to offset increasing operating costs, mandated (and often unfunded) environmental standard compliance, and pay-as-you-go capital costs attributable to repair and replacement of infrastructure. Inflation increases and other factors may erode the user charge coverage ratio. Consequently, service costs, user fees and charges should be reviewed and adjusted where necessary to maintain cost recovery.

## Analysis

On a combined basis (water and wastewater, solid waste, and airport), the user-charge coverage ratio maintained a neutral trend over the five-year period, indicating prudent management practices of balancing incremental fee increases with rising operating and capital costs. Fees and user charges in excess of related service expenditures are planned for debt retirement, pay-as-you-go capital expenditures, or are retained in the fund for future repair and replacement and/or peaks in projected operating costs.

(as % of expenses)



(in thousands)	FYE 6/00	FYE 6/01	FYE 6/02	FYE 6/03	FYE 6/04
Fees and User Charges	\$99,524	\$104,566	\$109,566	\$112,288	\$116,323
Related Service Expenses	\$82,123	\$88,023	\$85,727	\$83,884	\$90,067
Percent Coverage User Fees/Enterprise Expenditures	121.2%	118.8%	127.8%	133.9%	129.2%

Source: FYE 2000-2001 CAFR Exhibit F-2 Total Operating Revenues and Expenses. FYE 2002-2004 Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Funds.

Calculation: Fees & User Charges/Related Service Expenses (\*100)

# Restricted Revenue

Revenues

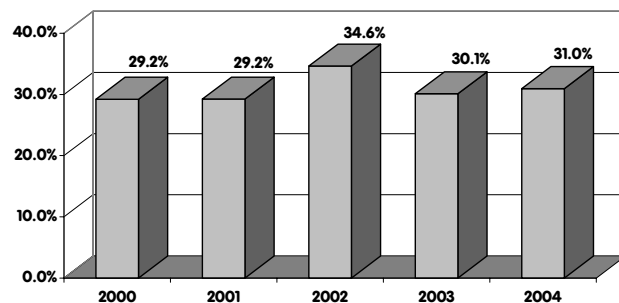
## Description

Restricted revenue is legally earmarked for specific use as may be required by State law, bond covenants, or grant requirements. For example, the State of Arizona requires that gas tax revenue be used only for street maintenance or construction. As the percentage of restricted revenue increases, the City loses its flexibility to respond to changing conditions. The overdependence on restricted revenues makes the City's programs vulnerable to dictates by the funding agencies and may signal a future inability to maintain current service levels at the least.

## Analysis

The restricted revenue experienced an approximate 5 percent increase in the 2002 fiscal year as the elastic revenue sources, which comprise a majority of the operating revenue, decreased as a percentage of total operating revenue. In addition, the increase in restricted revenue primarily relates to increases in grant awards for buses and police programs. In fiscal years 2003 and 2004, restricted operating revenue returned to a consistent level of recent years, resulting in an overall neutral trend for the five-year period. Scottsdale's restricted revenue is composed primarily of property taxes and special assessment collections, both of which are levied by the City and are secured by real property and the dedicated preserve and transportation sales tax. In May 2004, Scottsdale voters approved additional sales tax dedicated to Public Safety and the McDowell Mountain Preserve. The remaining restricted revenue is received from grants, gas tax revenue and lottery funds.

(as % of operating revenue)



(in thousands)	FYE 6/00	FYE 6/01	FYE 6/02	FYE 6/03	FYE 6/04
Restricted Operating Revenue	\$78,320	\$83,904	\$98,222	\$84,872	\$93,425
Operating Revenue	\$267,950	\$286,981	\$283,581	\$281,909	\$301,690
Percent Restricted/Net Operating Revenue	29.2%	29.2%	34.6%	30.1%	31.0%

Sources: FYE 2000-2001 CAFR Exhibit A-2 Total Revenues of Special Revenue and Debt Service Funds Less Auto Lieu Tax Exhibit C-4, CAFR Table II. FYE 2002-2004 Combining Statement of Revenues, Expenditures in Fund Balance for Non-Major Governmental Funds and General Obligation Bond Debt Service.

Calculation: Restricted Operating Revenue/Operating Revenue (\*100)

# Expenditures

Expenditures are an approximate measure of the City's service output. Generally, the more the City spends in constant dollars, the more service it is providing. This reasoning does not account for service delivery efficiency and effectiveness.

The first issue to consider is the expenditure growth rate to determine whether the City is operating within its revenues. Since the City of Scottsdale is required to have a balanced budget, it would seem unlikely that expenditure growth would exceed revenue growth. Nevertheless, the City may balance its annual budget yet create a long-run imbalance in which expenditure outlays and commitments grow faster than revenues. Some of the more common ways in which this happens are to use bond proceeds for operations, use reserve funds, and defer maintenance on streets, buildings, or other capital stock, or by deferring funding of contingent liabilities. In each of these cases, the budget remains balanced but the long-run budget is developing a deficit.

A second issue to consider is the level of mandatory or fixed costs. This is also referred to as expenditure flexibility, which is a measure of the City's freedom to adjust its service levels to changing economic, political, and social conditions. A city with a growing percentage of mandatory costs will find itself proportionately less able to make adjustments. As the percentage of debt service, matching requirements, pension benefits, State and Federal mandates, contractual agreements, and commitments to existing capital plant increase, the flexibility to make spending decisions decreases.

Ideally, the City will have an expenditure growth rate that does not exceed its revenue growth rate and will have maximum spending flexibility to adjust to changing conditions. Analyzing the City's expenditure profile will help identify the following types of problems:

- Excessive growth of overall expenditures as compared to revenue growth in community wealth.
- An undesired increase in fixed costs.
- Ineffective budget controls.
- A decline in personnel productivity.
- Excessive growth in programs that create future expenditure liabilities.

The indicators detailed on the following pages can be used to monitor changes in expenditures.

## Expenditures Per Capita

Expenditures

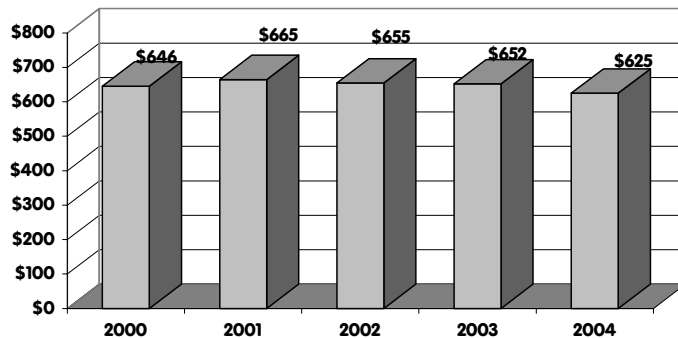
### Description

Per capita expenditures reflect changes in expenditures relative to changes in population. Increasing per capita expenditures may indicate that the cost of providing services is outstripping the City's ability to pay, especially if spending is increasing faster than the City's property, sales, or other relevant tax base. If the increase in spending is greater than would be expected from continued inflation and cannot be explained by the addition of new services, it can be an indicator of declining productivity.

### Analysis

The City's expenditures per capita (non-enterprise operations) have trended positively downward from 2001 to 2004. The increase in expenditures per capita from 2000 to 2001 was due to the addition of new facilities and the award of police and transit grants to the City. Subsequent to the 2001 increase, expenditures per capita steadily declined due to cost savings measures and a rigorous budget development processes. During the measured period, public service levels have either increased or remained constant, indicating more effective resource utilization and operating efficiencies.

(in constant dollars)



(in thousands)	FYE 6/00	FYE 6/01	FYE 6/02	FYE 6/03	FYE 6/04
Operating Expenditures	\$223,734	\$245,924	\$251,142	\$259,960	\$259,378
Consumer Price Index	169.3	175.1	178.2	182.1	186.1
Current Population	205	211	215	219	223
Net Constant Dollar Expenditures Per Capita	\$646	\$665	\$655	\$652	\$625

Sources: CAFR Table XVI, CAFR Table XIX, U.S. Bureau of Labor Statistics for All Urban Consumers. For FYE 2002-2004 CAFR Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds and Non-Major Funds.

Calculation: Net Expenditures/CPI/Population (\*100)

## Operating Expenditures - Service Areas

Expenditures

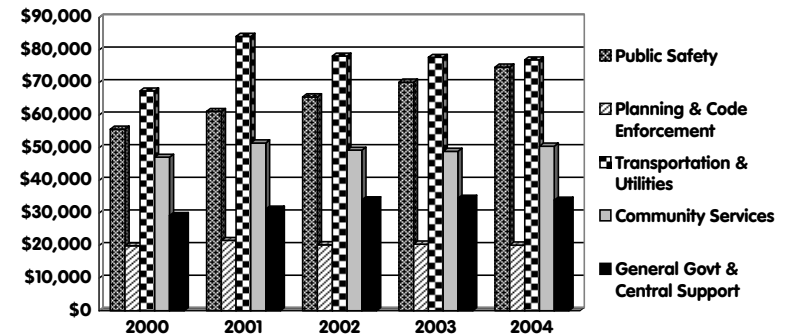
### Description

Tracking a city's operating expenditures by service areas can be a useful tool in analyzing developing trends that may indicate need for further attention or resources. Shifting trends may reflect a city's efforts to address goals and objectives, specific needs of the community, or may indicate an underlying problem that requires a shift in focus and/or resources.

### Analysis

The City's operating expenditures by service area have increased nominally over the five-year period to address continued service need growth, yet reflecting the necessity to tighten expenditures as revenue growth slowed during the economic downturn. The year-over-year increases to Public Safety (Police and Fire) expenditures can be attributed to general inflationary costs related to City operations and Fire service contracts, and to increased service level demands by the community. In fiscal year 2001, transportation grants received by the City resulted in higher service area expenditures for Transportation & Utilities.

(in thousands)



(in thousands)	FYE 6/00	FYE 6/01	FYE 6/02	FYE 6/03	FYE 6/04
Public Safety	\$55,730	\$61,167	\$65,643	\$70,116	\$74,775
Planning & Code Enforcement	\$19,903	\$21,598	\$20,275	\$20,460	\$20,171
Transportation & Utilities	\$67,442	\$84,200	\$78,132	\$77,735	\$76,980
Community Services	\$47,103	\$51,493	\$49,276	\$48,950	\$50,494
General Govt & Central Support	\$29,233	\$31,206	\$34,043	\$34,523	\$33,961

Sources: FYE 2002-2004 CAFR Statement of Revenues, Expenditures, and Changes in Fund Balance; Schedule of Revenues and Expenses - Enterprise Funds. FYE 2000-2001 CAFR Exhibit A-2; Exhibit F-2.

## Employees Per Capita

Expenditures

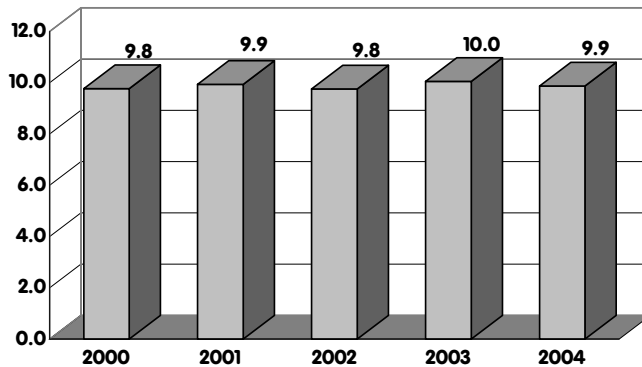
### Description

Personnel costs are a major portion of the City's operating budget. Tracking changes in the number of employees to population is a means to measure changes in expenditures. An increase in employees to population may indicate that expenditures are rising faster than revenues, the City is becoming more labor intensive, or that productivity is declining.

### Analysis

Full Time Equivalents (FTEs) include full time, part time, and grant funded employees. The stable FTE ratio per 1,000 citizens' trend indicates personnel growth is not outstripping growth in public service levels. The trend suggests that the City is providing increased service levels and productivity while not becoming more labor intensive. Due to earlier economic slowdown, the City began evaluating all new positions authorized by the budget and those open due to attrition, prior to recruitment.

(full-time equivalents per thousand citizens)



(in thousands)	FYE 6/00	FYE 6/01	FYE 6/02	FYE 6/03	FYE 6/04
Full-Time Equivalents (FTE)	2.0	2.1	2.1	2.2	2.2
Population	205	211	215	219	223
Full-Time Equivalents Per 1,000 Citizens	9.8	9.9	9.8	10.0	9.9

Sources: City of Scottsdale Budget; CAFR Table XXIII

Calculation: FTE/Population (\*1000)

## Fringe Benefits

Expenditures

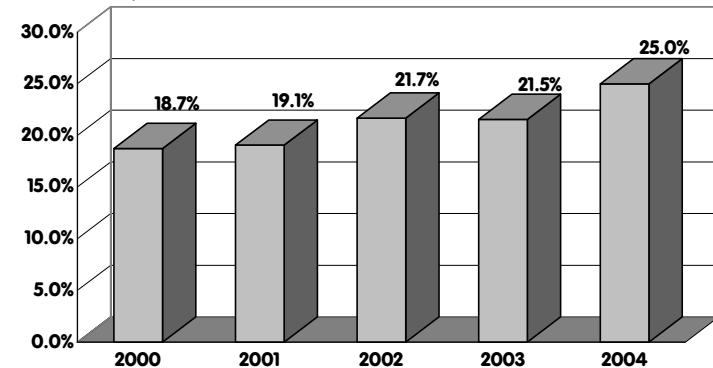
### Description

Fringe benefits comprise a significant portion of operating costs. Direct fringe benefits requiring an immediate cash outlay include Social Security taxes, retirement system contributions, worker's compensation, life and health insurance, tuition reimbursement, and vehicle allowances. Indirect benefits, which include accumulated holiday, vacation, and sick leave, do not require immediate cash outlay but may require paying the opportunity cost of not having the work done or paying others to do the work.

### Analysis

Fringe benefits as a percentage of salaries trended upward from fiscal year 2000 to 2004 and remained within the standard range for government industry benchmarks. The increasing trend is attributable to rising health care costs, Social Security taxes and retirement contributions, all of which are nationwide trends.

(as % of salaries)



(in thousands)	FYE 6/00	FYE 6/01	FYE 6/02	FYE 6/03	FYE 6/04
Fringe Benefit Expenditures	\$13,478	\$15,219	\$20,964	\$22,478	\$26,366
Salaries and Wages	\$71,953	\$79,871	\$96,697	\$104,316	\$105,567
Percent Fringe Benefits/ Salaries and Wages	18.7%	19.1%	21.7%	21.5%	25.0%

Sources: FYE 2002-2004 Payroll schedule with salaries and fringe benefits (establishes percent based on payroll input), FYE 2000-2001 CAFR Exhibit B-5 Plus Exhibit C-5 (Total personal services to be allocated to salaries and fringe benefits).

Calculation: Fringe Benefits/Salaries and Wages (\*100)



## Operating Position

Operating position refers to the City's ability to balance its budget on a current basis, maintain reserves for emergencies, and maintain sufficient cash to pay its bills on a timely basis.

During a typical year, a city will usually generate either an operating surplus, when revenues exceed expenditures, or an operating deficit, when expenditures exceed revenues. An operating surplus or deficit may be created intentionally as a result of a conscious policy decision or may be created unintentionally because it is difficult to precisely forecast revenues and expenditures. When deficits occur, they are usually funded from accumulated fund balances; when surpluses occur, they are usually dedicated to building prior years' fund balances or to funding future years' operations.

Reserves are built through the accumulation of operating surpluses. Reserves are maintained for the purposes of financial security in the event of loss of a revenue source, economic downturn, unanticipated expenditure demands due to natural disasters, insurance loss, need for large-scale capital expenditures or other non-recurring expenses, or uneven cash flow.

Sufficient cash, or liquidity, refers to the flow of cash in and out of the City treasury. The City receives many of its revenues in large installments at infrequent intervals during the year. It is to the City's advantage to have excess liquidity or cash reserves as security in the event of an unexpected delay in receipt of revenues, an unexpected decline or loss of a revenue source, or an unanticipated need to make a large expenditure.

An analysis of operating position can help identify the following situations:

- Emergence of operating deficits.
- Decline in reserves.
- Ineffective revenue forecasting techniques.
- Ineffective budgetary controls.
- Inefficiencies in management of enterprise operations.

The indicators detailed on the following pages can be used to monitor changes in operating position.

## General Fund Balance

### Operating Position

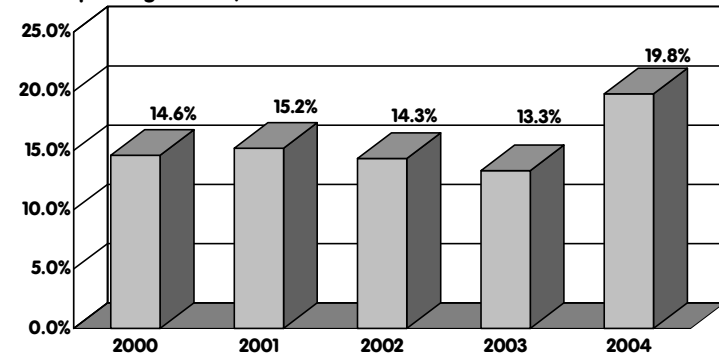
#### Description

The level of fund balances may determine the City's ability to withstand unexpected financial emergencies that may result from natural disasters, revenue shortfalls, or steep rises in inflation. Fund balances may also determine the City's ability to accumulate funds for large-scale purchases without having to borrow. Unrestricted fund balance includes financial policy designated reserves, contingencies, and unreserved fund balances.

#### Analysis

Scottsdale's unrestricted fund balance as a percent of operating revenue fluctuated slightly over the measured period, but maintained an overall neutral trend. Despite the economic slowdown experienced in fiscal years 2002 and 2003, the unrestricted General Fund Balance as a percentage of operating revenue declined only 1.9 percent over the two-year period. The increase to fiscal year 2004 ending fund balance was due to actual revenues higher than forecast and better-than-expected year-end department savings.

(as % of operating revenue)



(in thousands)	FYE 6/00	FYE 6/01	FYE 6/02	FYE 6/03	FYE 6/04
Unrestricted Fund Balance	\$39,119	\$43,611	\$40,643	\$37,516	\$59,707
Operating Revenue	\$267,950	\$286,981	\$283,581	\$281,909	\$301,690
Percent Fund Balance/ Fund Operating Revenue	14.6%	15.2%	14.3%	13.3%	19.8%

Sources: FYE 2000-2004 General Fund Unreserved Fund Balance - Governmental Funds Balance Sheet and Table IV.

Calculation: Unrestricted/Operating Revenue (\*100)

# Enterprise Fund Earnings

Operating Position

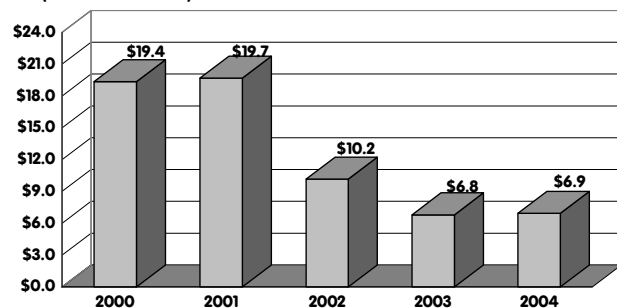
## Description

Enterprises are expected to function as if they were a commercial "for profit" entity and supported by user fees as opposed to a governmental "not for profit" entity supported by taxes. In times of financial strain, a city can raise taxes to increase support for governmental programs. User fees and charges are established in Enterprise Funds to promote efficiency by shifting payment of costs to specific users of services and to avoid general taxation. Moderate rate increases are included as part of the budget to offset increasing operating costs, mandated (and often unfunded) environmental standard compliance, and pay-as-you-go capital costs attributable to repair and replacement of infrastructure. Positive operating results allow the Enterprise Funds to stabilize rates even in years where large capital expenditures must be made, e.g., the construction of a new plant.

## Analysis

The decline in operating results in 2002 was due to investment earnings that decreased \$7.6 million dollars from the previous year. In addition, changes related to asset value and depreciation required by the implementation of Governmental Accounting Standards Board (GASB) Statement No. 34 in 2002 resulted in a reduction in net earnings from the previous year of \$9.5 million. Reduction in net earnings for fiscal year 2003 of \$3.4 million was attributable to additional reduced investment earnings of \$4.3 million related to the economic downturn.

Millions (in constant dollars)



(in thousands)	FYE 6/00	FYE 6/01	FYE 6/02	FYE 6/03	FYE 6/04
Enterprise Operating Results	\$32,781	\$34,473	\$18,120	\$12,382	\$12,917
Consumer Price Index	169.3	175.1	178.2	182.1	186.1
Net Constant Dollar					
Enterprise Fund Earnings	\$19,363	\$19,688	\$10,168	\$6,800	\$6,941

Sources: CAFR Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds - Increase in Net Assets for the FYE 2002-2004. FYEs 2000-2001 CAFR Exhibit A-4 - changes in fund balance. U.S. Bureau of Labor Statistics for All Urban Consumers.

Calculation: Enterprise Results/CPI (\*100)

# Liquidity

Operating Position

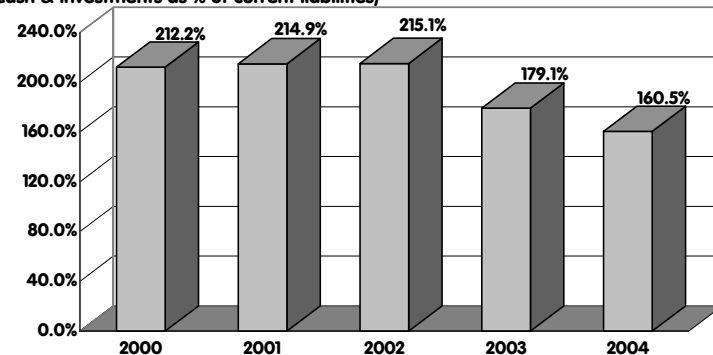
## Description

A measure of the City's short-run financial condition is its cash position. Cash position includes cash on hand and in the bank, as well as other assets that can be easily converted to cash, such as short-term investments. The level of this type of cash is referred to as liquidity. Liquidity measures the City's ability to pay its short-term obligations. Low or declining liquidity can indicate that the City has overextended itself in the long term.

## Analysis

The liquidity ratio has demonstrated an overall neutral trend over the past five years and has remained well over 100.0 percent, which would be termed a current account surplus. The liquidity ratio indicates that the City's ability to pay short-term obligation is excellent. In fiscal year 2003, the liquidity ratio declined to 179.1 percent due to deferral of Special Assessment Revenue higher debt service principal and interest payments that were accrued. In fiscal year 2004, the major decrease was due to the defeasance of Municipal Property Corporation (Asset Transfer) debt using general funds.

(cash & investments as % of current liabilities)



(in thousands)	FYE 6/00	FYE 6/01	FYE 6/02	FYE 6/03	FYE 6/04
Cash and Investments	\$128,185	\$130,612	\$149,096	\$146,443	\$127,526
Current Liabilities	\$60,417	\$60,787	\$69,301	\$81,744	\$79,464
Percent Cash and Investments/ Current Liabilities	212.2%	214.9%	215.1%	179.1%	160.5%

Sources: 2000-2001 CAFR Exhibit A-1 Cash & Short Term Investments Plus Investments for General, Special Revenue, & Debt Funds, CAFR Exhibit A-1 Total Liabilities (Less Due to General Fund for General, Special Revenue & Debt Funds). FYE 2002-2004 Balance Sheet - Governmental Funds and NonMajor Governmental Funds.

Calculation: Investments/Liabilities (\*100)

## Debt Structure

Debt structure is important because debt is an explicit expenditure obligation that must be satisfied when due. Debt can be an effective tool to finance capital improvements and to smooth out short-term revenue flows; however, its misuse can cause serious financial problems. Even a temporary inability to repay debt can result in loss of credit rating, increased borrowing costs, and loss of autonomy to State and other regulatory bodies.

The most common forms of long-term debt are general obligation, special assessment, and revenue bonds. When the City issues debt for capital projects, it must ensure that aggregate outstanding debt does not exceed the community's ability to pay debt service as measured by the property value or personal or business income.

Under the most favorable circumstances, the City's debt should be proportionate in size and growth to the City's tax base; should not extend past the useful life of the facilities which it finances; should not be used to balance the operating budget; should not require repayment schedules that put excessive burdens on operating expenditures; and should not be so high as to jeopardize the City's credit rating.

An examination of the City's debt structure can reveal the following conditions:

- Inadequacies in cash management procedures.
- Inadequacies in expenditure controls.
- Decreases in expenditure flexibility due to increased fixed costs in the form of debt service.
- Use of short-term debt to finance current operations.
- Existence of sudden large increases or decreases in future debt service.
- The amount of additional debt that the community can absorb.

The indicators detailed on the following pages can be used to monitor changes in debt structure.

## Net Direct Debt Per Assessed Valuation

### Debt Structure

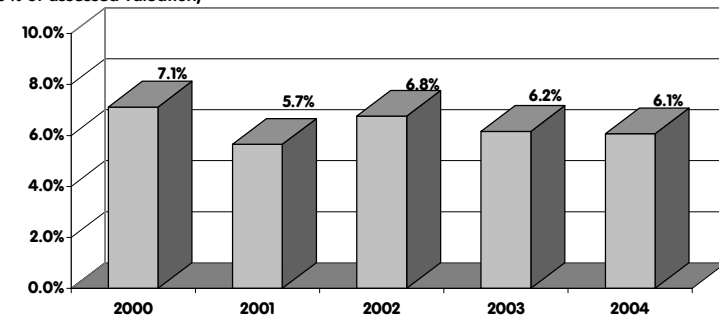
### Description

Net direct debt is debt for which the City has pledged its "full faith and credit" less self-supporting (enterprise and preserve debt) and debt of overlapping jurisdictions (school districts and County). The assessed value is the most generally available measure of community wealth. Generally, long-term debt should not exceed the City's resources for paying debt service.

### Analysis

The percent of net direct long-term debt as a percent of assessed valuation reflected an overall downward trend for the period 2000-2004. A growing city is expected to have associated debt burden to support its growing infrastructure needs. Current debt pay down, coupled with well-managed new debt issuances to support growing infrastructure needs has kept the direct debt to citizens affordable. On average, assessed value growth outpaced net direct long-term debt growth over the measured period. This, coupled with growth in personal income, indicates the community's increasing ability to pay for the City's required debt obligations.

(as % of assessed valuation)



(in thousands)	FYE 6/00	FYE 6/01	FYE 6/02	FYE 6/03	FYE 6/04
Net Direct Long-Term Debt*	\$176,815	\$164,750	\$221,677	\$217,393	\$241,328
Assessed Valuation	\$2,484,385	\$2,915,381	\$3,277,951	\$3,526,605	\$3,975,522
Percent Net Direct Debt/Assessed Valuation	7.1%	5.7%	6.8%	6.2%	6.1%

Sources: FYE 2000-2001 CAFR Table XII, CAFR Exhibit J-1. FYE 2002-2004 Supplementary Schedule of Changes in Long-term Debt.

Calculation: Net Direct Long-Term Debt/Assessed Valuation (\*100)

\*The City's Preservation General Obligation Bonds, Series 1999, 2001 and 2002, 2004 are excluded from Net Direct Long-Term Debt. The City intends to pay debt service on these bonds from the 0.2% McDowell Mountain Preserve sales tax approved by the voters in 1995.

# Net Direct Debt Per Capita

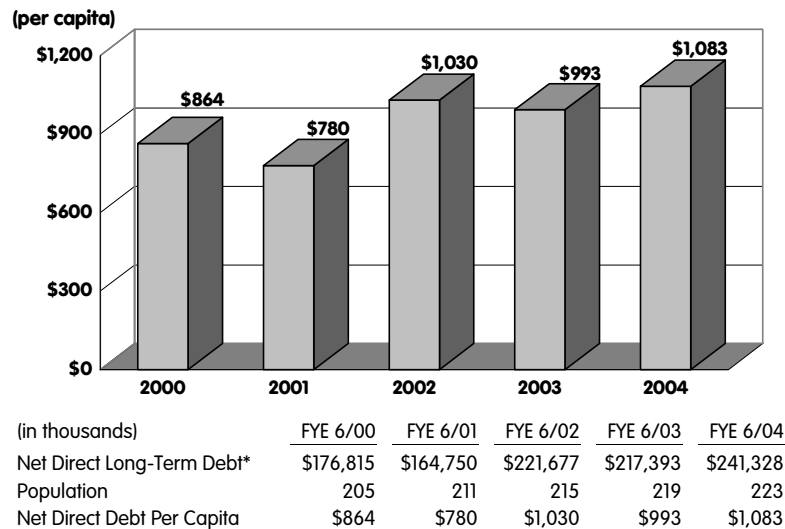
Debt Structure

## Description

The per capita measure illustrates how the growth in debt is changing relative to population changes. As population increases it would be expected that capital needs and the associated long-term debt would also increase. If long-term debt is increasing in the face of a stabilizing or declining population, debt levels may be reaching or exceeding the City's ability-to-pay.

## Analysis

The level of net direct debt per capita reflected a rising trend due to the issuance of new general obligation debt approved by Scottsdale citizens. A city with a positive population trend is expected to have associated debt burden in order to finance infrastructure needs. As discussed in the analysis of Net Direct Debt Per Assessed Valuation, the City's assessed value growth exceeded net direct debt growth indicating the community's increasing ability to pay the obligations.



Source: FYE 2000-2001 CAFR Table XII, CAFR Exhibit J-1. FYE 2002-2004 CAFR Table XIV and the Supplementary Schedule of Changes in Long-term Debt.

Calculation: Net Direct Long-Term Debt/Population

\*The City's Preservation General Obligation Bonds, Series 1999, 2001, 2002 and 2004, are excluded from Net Direct Long-Term Debt. The City intends to pay debt service on these bonds from the 0.2% McDowell Mountain Preserve sales tax approved by the voters in 1995.

# Overlapping Net Debt

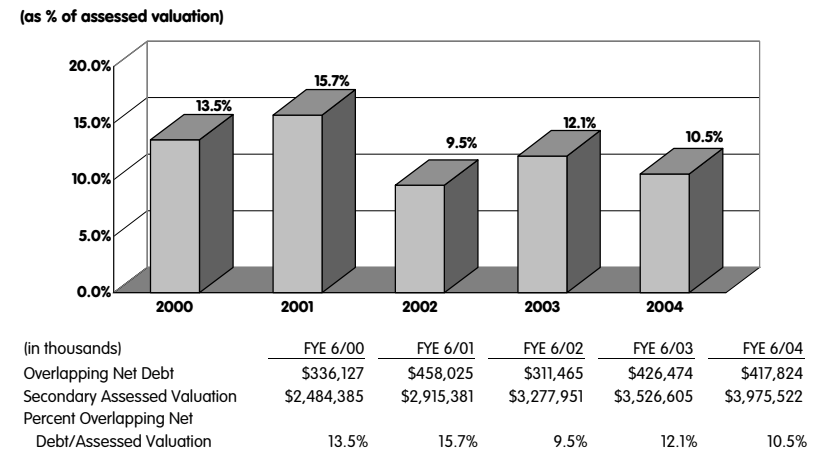
Debt Structure

## Description

Overlapping net debt is the net direct debt of all local government jurisdictions that is issued against a tax base within part or all of the geographic boundaries of the City. Examples of other jurisdictions that may overlap the City are Maricopa County, Maricopa County Community College District, Tempe, Paradise Valley, and Scottsdale school districts.

## Analysis

The overlapping net debt as a percent of assessed valuation declined over the measurement period. The debt dropped in fiscal year 2002 due to the repayment of debt issuances by the school districts. On average, the measured period showed a positive trend as assessed value growth outstripped overlapping debt growth. For the future, the \$951 million bond election for Maricopa Community Colleges that was approved by voters in the November 2004 election will have an impact on overlapping net debt and could result in a rising trend.



Sources: FYE 2000-2001 CAFR Table XVI Total Overlapping Debt, CAFR Table XII. FYE 2002-2004 CAFR Table Xb and Table XVIII.

Calculation: Overlapping Debt/Secondary Assessed Valuation (\*100)

# Debt Service

## Debt Structure

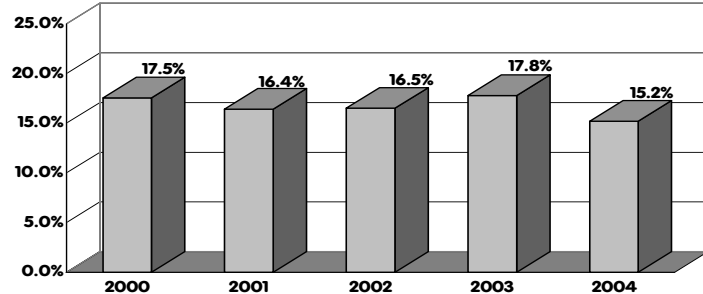
### Description

Debt service is defined as the amount of principal and interest that the City must pay each year on long-term debt plus the interest it must pay on direct short-term debt. As the debt service increases, it adds to the City's obligations and reduces the City's expenditure flexibility. Debt service can be a major part of the City's fixed costs and its increase may indicate excessive debt and fiscal strain.

### Analysis

The level of debt service as a percent of Governmental and Enterprise Fund operating revenues has remained relatively neutral for Scottsdale over the measurement period. In 2000, the City offered final issuances of bonds authorized in the 1989 and 1992 bond elections and debt issued for mountain preservation. In relation, operating revenue showed a steady increase during fiscal years 2000 and 2001, providing sufficient resources to meet debt service demands. During 2003, debt service expenditures increased due to the issuance of new debt and the decline in revenues related to the soft economy. As the economic rebound took hold in 2004, the City's increased revenues resulted in the lowest debt service ratio over the five-year period.

(as % of revenue)



(in thousands)	FYE 6/00	FYE 6/01	FYE 6/02	FYE 6/03	FYE 6/04
Debt Service	\$65,783	\$65,424	\$64,967	\$69,662	\$63,308
Governmental/Enterprise Funds Revenue	\$375,025	\$398,646	\$393,598	\$391,657	\$416,415
Percent Debt Service/Total Operating Revenue	17.5%	16.4%	16.5%	17.8%	15.2%

Sources: FYE 2000-2001 CAFR Exhibit A-3 (Debt Principal & Interest Governmental Funds) Plus CAFR Exhibit A-6 (Debt Service & Reserves Enterprise Fund), CAFR Exhibit A-2 (Total Revenue Governmental Funds) Plus CAFR Exhibit A-4 (Total Revenue Enterprise Fund). FYE 2002-2004 CAFR Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds Plus Debt Service and Reserve Actual Amounts - GAAP basis for all Enterprise Funds (Water, Solid Waste and Airport). Amounts for Special Assessments, Scottsdale Mountain CFD, McDowell Mountain CFD, DC Ranch CFD, and Via Linda CFD are not included.

Calculation: Debt Service/Operating Revenue (\*100)

# Debt Margin

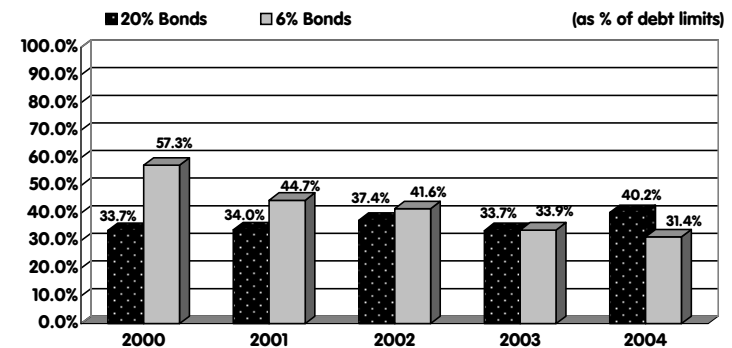
## Debt Structure

### Description

Under Arizona law, cities can issue general obligation bonds up to an amount not exceeding specific debt limits. General obligation bonds issued for purposes of water, wastewater, artificial light, open space preserves, parks, playgrounds, and recreational facilities cannot exceed 20 percent of assessed valuation. General obligation bonds issued for all other purposes cannot exceed 6 percent of assessed valuation. The debt margin is that portion of the legal debt limit available for bonding.

### Analysis

The City's percent of debt outstanding as a percent of the legal debt limit for the five-year period shows an overall rising trend for 20 percent bonds and a declining trend for 6 percent bonds. Both debt margins are favorable as the percent of debt outstanding is well within the debt limits, which indicates the City has available capacity to issue additional general obligation bonds.



(in thousands)	FYE 6/00	FYE 6/01	FYE 6/02	FYE 6/03	FYE 6/04
20% Debt Outstanding	\$167,663	\$195,573	\$245,209	\$237,400	\$319,765
20% Debt Limit	\$496,877	\$575,547	\$655,590	\$705,321	\$795,104
Outstanding Debt as a Percent of Debt Limit	33.7%	34.0%	37.4%	33.7%	40.2%
6% Debt Outstanding	\$85,457	\$77,117	\$81,757	\$71,695	\$74,984
6% Debt Limit	\$149,063	\$172,664	\$196,677	\$211,596	\$238,531
Outstanding Debt as a Percent of Debt Limit	57.3%	44.7%	41.6%	33.9%	31.4%

Source: CAFR Table XIII (Table XV for 2002-2004) Net Outstanding Bonded Debt Subject to 20% Limit/6% Limit. CAFR Table XIII (XV for 2002-2004) Debt Limit Equal to 20% Assessed Value/6% Assessed Value.

Calculation: Debt Outstanding/Debt Limit (\*100)

## Contingent Liabilities

A contingent liability is an existing condition or situation whose ultimate disposition may not be known or does not have to be paid until a future year, and for which reserves have been set aside. A contingent liability is similar to debt in that it represents a legal commitment to pay sometime in the future. Due to the potential magnitude, if these types of obligations grow substantially over time, they can have a significant impact on the City's financial condition.

The contingent liabilities considered here are significant because they are not readily apparent in ordinary financial records, making it difficult to assess their respective impacts. Additionally, the contingent liabilities may accumulate gradually over time, making it difficult to notice them until the problem is severe.

An analysis of the City's contingent liabilities can reveal the following:

- An increase in the City's pension liability.
- Inadequacies in pension plan contributions, pension system assets, and whether the investment earnings are keeping pace with the growth in benefits.
- An increasing amount of unused employee vacation and sick leave.
- Inadequacies of City policies for payment of unused vacation and sick leave as compared to the City's ability to pay.
- An increase in the amount of lawsuits and other claims against the City.

The indicators detailed on the following pages can be used to monitor changes in contingent liabilities.

## Pension Benefit Obligation

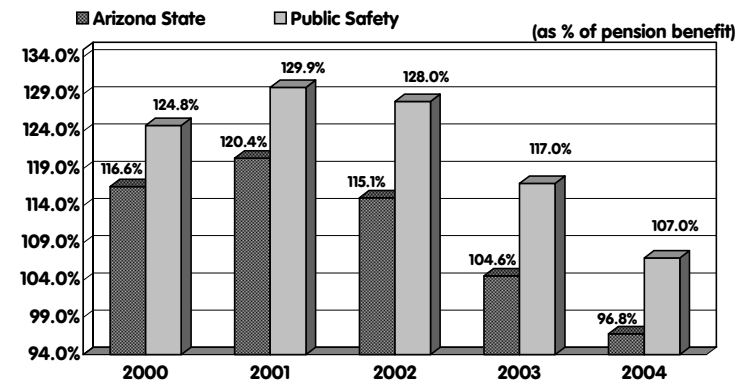
### Contingent Liabilities

### Description

Pension plans represent a significant expenditure for the City. There are two basic ways to fund pension plans: (1) Fund them when benefits need to be paid (pay-as-you-go), or (2) Fund them as benefits accrue and reserve cash for when benefits will have to be paid (full funding). The State of Arizona administers the pension plans that cover City employees and have required employee and employer contributions in order to fully fund all pension benefit obligations.

### Analysis

Full funding of the Arizona State Retirement Plan and the Public Safety Retirement Plan has been a favorable trend over the measured period. The decline in percent of benefits funded from fiscal year 2002 forward can be attributed to the downturn in the economy, sharply lower returns on investments, expanded coverage needs, and changing population demographics as average life expectancy increases. In light of this declining trend, increased contributions to the plans by employee and employer have been necessary to ensure continued full funding.



Percent of Pension Benefit Obligation Funded	FYE 6/00	FYE 6/01	FYE 6/02	FYE 6/03	FYE 6/04
Arizona State Retirement Plan (Other Employees)	116.6%	120.4%	115.1%	104.6%	96.8%
Public Safety Retirement Plan (Police Employees)	124.8%	129.9%	128.0%	117.0%	107.0%

Sources: The Arizona State Retirement System Comprehensive Annual Financial Report Schedule of Funding Progress, Public Safety Personnel Retirement System Comprehensive Financial Report Schedule of Funding Progress.



# Post Employment Benefits

Contingent Liabilities

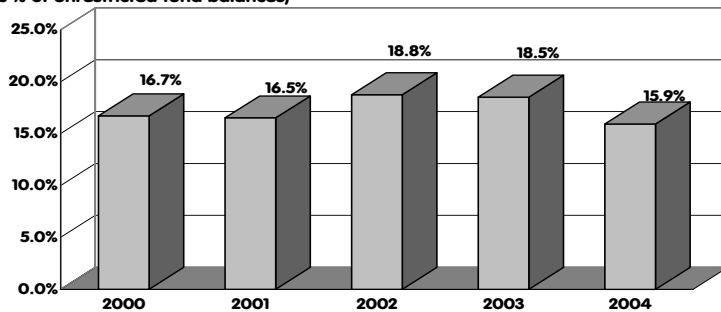
## Description

Accumulated unpaid vacation is accrued in governmental and proprietary funds. These accumulated employee benefits are payable to the employee, subject to certain limitations, and represent an unfunded, long-term liability to the City.

## Analysis

The City's liability for accrued post employment benefits reflects a neutral trend for the measured period. An actuarial study was made during fiscal year 2002 to determine the actual liability of a provision in the City Code that allows long-term employees to use unused sick leave to pay insurance premiums after retirement. The resultant increase of 2.3 percent from the previous year reflects increased wages, health insurance costs and the aging employee population that is nearing retirement. Although the amount for post employment benefits continued its upward trend in 2004, the increase was more than offset by a rise in unrestricted fund balances, resulting in a 2.6 percent decrease in liability for post employment benefits as a percent of unrestricted governmental fund balance for fiscal year 2004.

(as % of unrestricted fund balances)



(in thousands)	FYE 6/00	FYE 6/01	FYE 6/02	FYE 6/03	FYE 6/04
Post Employment Benefits	\$7,880	\$8,592	\$12,455	\$11,495	\$13,038
Unrestricted Governmental Fund Balances	\$47,156	\$52,011	\$66,418	\$62,069	\$81,829
Percent Post Employment Benefits/Unrestricted Governmental Fund Balances	16.7%	16.5%	18.8%	18.5%	15.9%

Sources: CAFR Note Long Term Debt Balance at June 30 CAFR Statement of Revenues, Expenditures and Changes in Fund Balance Unreserved General Fund Plus Special Revenue Less Asset Transfer\* <\$33,720,000> through 2003.

Calculation: Uncompensated Absences/Fund Balance (\*100)

\*Municipal Property Corporation Asset Transfer Bonds.

# Self-Insurance

Contingent Liabilities

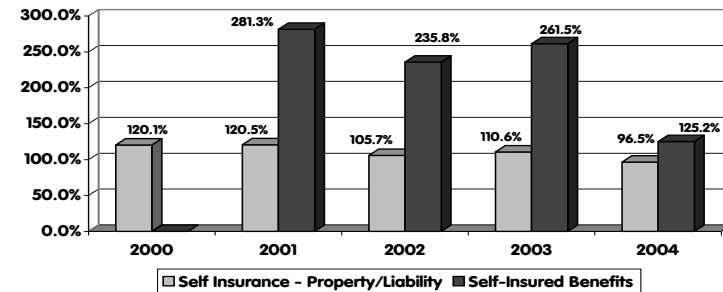
## Description

The City is subjected to lawsuits and other claims occurring in the ordinary course of its operations. Since the City is largely self-insured, these potential and costs liabilities are to be paid from the fund balance established for self-insurance purposes. The City receives an actuarial study each year that outlines the recommended actuarial fund balance based on an estimate of outstanding losses. The self-insurance fund balance should be at a level sufficient enough to cover all estimated outstanding losses in the near-term. The recommended self-insurance fund balance ratio should be at least 90 percent, but not greater than 125 percent of the actuarial fund balance.

## Analysis

The self-insurance recommended fund balance reflected a neutral trend over the measured period. The increase in fiscal year 2004 was due to a series of severe workers' compensation claims.

(self-insurance fund balance as % of recommended actuarial fund balance)



(in thousands)	FYE 6/00	FYE 6/01	FYE 6/02	FYE 6/03	FYE 6/04
Self-Insurance Property/Liability at 90% Confidence Level	\$10,161	\$12,229	\$11,177	\$12,201	\$12,877
Recommended Fund Balance	\$8,457	\$10,148	\$10,577	\$11,035	\$13,346
Percent Liability Coverage	120.1%	120.5%	105.7%	110.6%	96.5%
Self-Insured Employee Benefits	n/a	4,768	\$4,273	\$5,180	\$6,853
Recommended Fund Balance	n/a	1,695	\$1,812	\$1,981	\$5,474
Percent Liability Coverage	n/a	281.3%	235.8%	261.5%	125.2%

Sources: City of Scottsdale Financial Services Department.

Actuarial Fund Balance based on Actuarial Study prepared by Advanced Risk Management Techniques, Inc. for Property-Casualty lines and Willis Corporation of Arizona for Self-Insured Benefits.

In the fiscal year ended June 30, 2001, the City began recording the self-insured benefits in the self-insurance fund. Fiscal year 2003/04 include claim projections for the fire personnel effective 2005/06 and beyond.

Calculation: Self Insurance Fund Balance/Recommended Actuarial Fund Balance (\*100)

## Condition of Capital Plant

The bulk of the City's wealth is invested in its physical assets or capital plant - 75 percent of its streets, buildings, utility network, and equipment. If these assets are not maintained in good condition or if they are allowed to become obsolete, the result is often a decrease in the usefulness of the assets, an increase in the cost of maintaining and replacing them, and a decrease in the attractiveness of the City as a place to live or do business.

Cities often defer maintenance and replacement because it is a relatively painless short-run method to reduce expenditures and ease current financial strain. Continued maintenance deferral, however, can create serious long-term problems that become exaggerated because of the large sums of money invested in capital facilities.

The following are some of the problems associated with continued deferred maintenance:

- Creation of safety hazards and other liability exposures.
- Reduction in the residential and business value of the City.
- Decreased efficiency of equipment due to obsolescence and deferred maintenance.
- Increased costs of bringing the facility up to acceptable levels after continued maintenance deferral.
- Creation of a large unfunded liability in the form of a backlog in maintenance that can result in accelerated deterioration.
- The indicators detailed on the following pages can be used to monitor changes in the condition of capital plant.

## Maintenance Effort

### Condition of Capital Plant

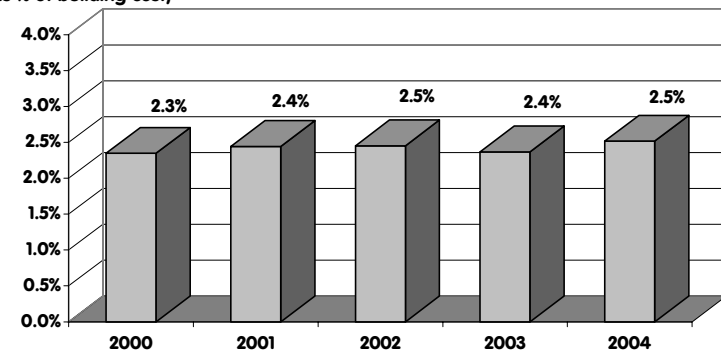
#### Description

The condition of the City's long-lived assets, such as buildings, is significant because of the tremendous cost and far-reaching consequences their decline can have on business activity, property values, and operating expenditures. Deferral of maintenance on the assets and their subsequent deterioration can create a significant unfunded liability. Maintenance expenditures should remain relatively constant in relation to the cost and nature of assets maintained. If the ratio is declining it may be a sign that the City's assets are deteriorating.

#### Analysis

Maintenance expenditures as a percent of building and improvement costs have remained consistent over the measured period. This trend is favorable as it indicates that the City's buildings and improvements are being maintained in good working condition and that the maintenance expenditures on a per unit basis are not increasing due to deterioration of the assets.

(as % of building cost)



(in thousands)	FYE 6/00	FYE 6/01	FYE 6/02	FYE 6/03	FYE 6/04
Maintenance Expenditures	\$5,945	\$6,307	\$6,489	\$6,579	\$6,563
Building & Improvements Costs	\$253,113	\$258,108	\$264,387	\$277,841	\$260,709
Percent Maintenance Expenditures/Building Costs	2.3%	2.4%	2.5%	2.4%	2.5%

Sources: Total Building Maintenance Division Expenses, CAFR Exhibit I-2 (2000-2001). FYE 2002-2004 Capital Asset Note - Governmental Activities - Buildings and Land Improvements.

Calculation: Maintenance Expenditures/Building and Improvement Costs (\*100)

# Capital Outlay

Condition of Capital Plant

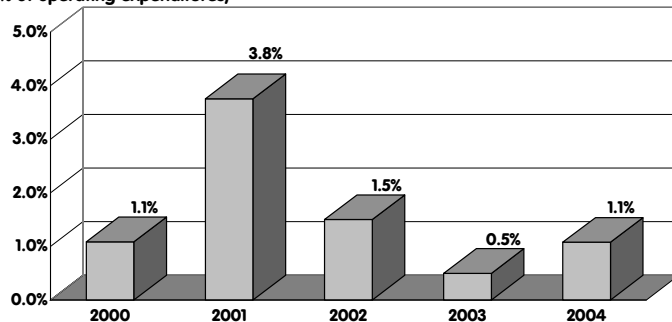
## Description

The expenditure for operating equipment, such as vehicles, radios, and computer and office equipment purchased from the operating budget is referred to as capital outlay. It includes equipment that will last longer than one year and costs more than \$5,000. Capital expenditures may remain constant or even decline in the short run as new and replacement equipment is purchased. If the decline persists over three years, it can be an indicator that capital outlay needs are being deferred, resulting in the use of obsolete equipment and the creation of an unfunded liability.

## Analysis

Capital outlay expenditures as a percent of net operating expenditures has remained relatively neutral over the five-year measured period. The increase to capital outlay in fiscal year 2001 is largely attributable to receipt of grants for bus acquisitions. The 1.0 percent decrease in fiscal year 2003 can be attributed to prudent budgeting and spending practices during tight economic times and declining revenue streams; the subsequent 0.6 percent increase in fiscal year 2004 reflected an improving economic outlook. Considering the adjustments to capital outlay spending, the trend indicates that operating equipment is being maintained in good condition, thus avoiding the use of obsolete and inefficient equipment and the creation of an unfunded liability.

(as % of operating expenditures)



(in thousands)	FYE 6/00	FYE 6/01	FYE 6/02	FYE 6/03	FYE 6/04
Capital Outlay	\$2,433	\$9,235	\$3,770	\$1,294	\$2,797
Operating Expenditures	\$223,734	\$245,924	\$251,142	\$259,960	\$259,378
Percent Capital Outlay/Net Operating Expenditures	1.1%	3.8%	1.5%	0.5%	1.1%

Sources: FYE 2000-2001 CAFR Exhibit B-5 Plus Exhibit C-5, CAFR Table XIV. FYE 2002-2004 Special Revenue and General Fund "Capital Improvement" expenditures - Statement of Revenue and Expenditures. Plus CAFR Table XVI.

Calculation: Capital Outlay/Operating Expenditures (\*100)

# Depreciation

Condition of Capital Plant

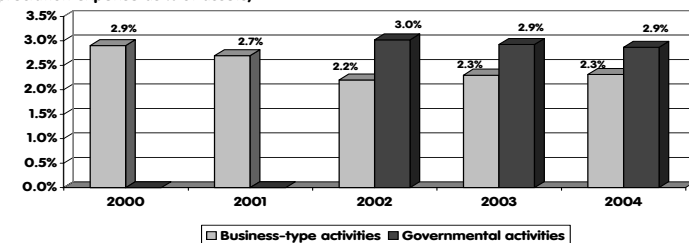
## Description

Depreciation is the mechanism by which cost is associated with the use of a fixed asset over its useful life. Depreciation should remain a relatively stable portion of asset cost assuming older assets, which are fully depreciated, are removed from service and replaced with newer assets. If depreciation costs start to decline as a portion of asset cost, the assets are probably being used beyond their useful lives, the estimated useful lives had been initially underestimated, or the scale of operations was reduced.

## Analysis

Depreciation expense has remained a stable portion of fixed asset costs, which indicates that assets are being fully depreciated and replaced with newer assets on a timely basis. This will prevent a large expense, in any one year, to replace outdated assets. In addition, for the fiscal year ended June 30, 2002, the City was required to adopt Governmental Accounting Standards Board Statement No. 34 which required the depreciation of all governmental assets. For fiscal years 2002 to 2004, the depreciation expense related to governmental assets remained consistent in relation to the City's enterprise assets.

(depreciation expense as % of assets)



(in thousands)	FYE 6/00	FYE 6/01	FYE 6/02	FYE 6/03	FYE 6/04
<b>Business-type Activities</b>					
Depreciation Expense	\$23,711	\$23,910	\$20,003	\$21,542	\$23,756
Fixed Asset Costs	\$816,774	\$886,280	\$907,875	\$936,661	\$1,026,018
Percent Depreciation Expense/Fixed Asset Costs	2.9%	2.7%	2.2%	2.3%	2.3%
<b>Governmental Activities</b>					
Depreciation Expense	-	-	\$82,278	\$83,363	\$85,861
Fixed Asset Costs	-	-	\$2,721,662	\$2,848,435	\$2,992,224
Percent Depreciation Expense/Fixed Asset Costs	-	-	3.0%	2.9%	2.9%

Sources: FYE 2000-2001 CAFR Exhibit A-4 Depreciation & Amortization Total Reporting Entity, CAFR Note 6 Fixed Assets -Summary of Proprietary Funds - Enterprise and Internal Service before Accumulated Depreciation. FYE 2002-2004 - CAFR Notes to Financial Statements - Capital Asset section.

Note: With the implementation of Governmental Accounting Standard Board Statement No. 34 at June 30, 2002, the City is required to depreciate all governmental assets.

Calculation: Depreciation Expense/Fixed Asset Costs (\*100)